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ABSTRACT

The Economic Policy Institute (EPI) was founded in 1986 with the intent of widening the debate on U.S. economic policies by presenting analyses that provide an alternative point of view from those of various conservative research institutions. The two papers presented in this document were originally prepared for a seminar designed to identify principles upon which new labor market policies might be launched. In "The Possibilities of Employment Policy", Paul Osterman argues that current programs isolate and stigmatize their clients. Programs for dislocated workers respond to emergencies in an inevitably limited way, and current political support for employment and training systems is limited. Revived programs should include an expansion of eligibility, a unification of programs under a broadly representative local agency, a rethinking of the entry process for young people, and an expansion of the general training made available to employed adults. In "A New Labor Market Agenda" Ray Marshall also advocates a broad national strategy, but stresses that tight budgets require quality programs be built for those who most need them. He points out that graduates of proven programs such as the Job Corps are not stigmatized, and that such programs should be fully funded. Existing programs should be strengthened by developing managerial capacities and pursuing a consistency in funding. Basic education in the school systems is a major factor determining the success or failure of programs such as the adjustment of dislocated workers or the breaking of inter-generational poverty. Discussions by seminar participants follow each paper, and a list of EPI study series, working papers, and briefing papers is included. (PPB)

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Workforce Policies for the 1990s

A New Labor Market Agenda

Ray Marshall

The Possibilities of Employment Policy

Paul Osterman

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Economic Policy Institute

Workforce Policies for the 1990s

A New Labor Market Agenda

Ray Marshall

Former U.S. Secretary of Labor
and Rapoport Professor of Economics and Public Affairs,
L.B.J. School of Public Affairs, University of Texas

The Possibilities of Employment Policy

Paul Osterman

Professor, Sloan School of Management
Massachusetts Institute of Technology

Papers Presented to an Economic Policy Institute Seminar on Labor Market Policy: April 29, 1988.

Economic Policy Institute

1730 Rhode Island Ave., NW, Suite 812, Washington, DC 20036
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Ray Marshall holds the Bernard Rapoport Centennial Chair in Economics and Public Affairs at the LBJ School of Public Policy at the University of Texas at Austin. Professor Marshall served as Secretary of Labor in the Carter Administration (1977-1981). The author of numerous articles and books, Professor Marshall has most recently written *Unheard Voices: Labor and Economic Policy in a Competitive World.*

Paul Osterman is an Associate Professor of Human Resources and Management at MIT's Sloan School of Management. Professor Osterman's most recent book is *Employment Futures: Reorganization, Dislocation, and Public Policy.*

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Introduction

The debate over economic policy has been dominated for some time by the so-called *twin*--fiscal and trade --deficits. But a third deficit in the long run may prove even more troublesome to the US economy: that is, the deficit in the national investment in education, training and skill-development we need to regain our economic balance in an era of fierce international competition.

No nation can prosper if it does not maintain a high level of investment in the skills of its people.

Closing this Human Capital Deficit is critical for future US prosperity. Nations can, and have, prospered despite the persistence of budgetary deficits. So long as governments are borrowing for productive purposes, deficits can spur economic growth. But in the new competitive world, where the ability to master technology is the basic source of economic growth, no nation can prosper if it does not maintain a high level of investment in the skills of its people.

Fortunately, policymakers and citizens are becoming more aware of the cost of this neglect in human investment. The proposition that the automatic workings of the unfettered market will provide the right incentives for *all* of the investments a society needs is no longer credible. The last few years have seen leaders in business, labor, academia and the government at all levels acknowledge the need for public action to improve the skills of both today's and tomorrow's labor force.[1]

With a new Administration coming into office, now is the appropriate time to look at the systems, institutions and programs of human resource investment.

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1. Committee for Economic Development, Research and Policy Committee, *Children in Need: Investment Strategies for the Educationally Handicapped*, New York, New York, 1987; William T. Grant Foundation Commission on Work, Family and Citizenship, *The Forgotten Half: Gateways to Success for America's Youth and Young Families*, Washington, DC, November 1988; Secretary of Labor's Task Force on Economic Adjustment and Worker Dislocation, *Economic Adjustment and Worker Dislocation in a Competitive Society*, Washington, DC, December 1986; James B. Stedman and K. Forbis Jordon, "Education Reform Reports: Content and Impact," Congressional Research Service, Report No. 86-56 EPW, Washington, DC, March 17, 1986.

Especially, we need to ask ourselves what lessons we have learned from the past and how we can translate those lessons into new imaginative strategies to reverse the present neglect of our most important asset.

Osterman argues that narrowly targeted means-tested programs stigmatize the poor.

On April 29, 1988, the Economic Policy Institute convened a seminar of experts (listed on page iv) to identify the principles upon which new, more relevant labor market policies might be launched. To stimulate discussion, EPI asked two distinguished analysts--former Secretary of Labor Ray Marshall (presently Bernard Rapoport Professor of Economics at the University of Texas) and Paul Osterman, Professor of Economics at the Sloan School of Management at MIT--to give their views on the most appropriate path for new employment and training strategies. This report is an edited version of their remarks and the discussion that followed.

The views of Marshall and Osterman both complement and contrast with each other. Both economists have devastating critiques of recent policies of neglect. Both point to some of our competitor nations as evidence that human investment programs make a critical contribution to a nation's competitiveness and productivity. Yet they differ in their choice of strategic priorities and in their answer to the question of how a next generation of labor market progress should be structured.

For example, Osterman argues that narrowly targeted *means-tested* programs stigmatize the poor. As a result, even successful graduates of these programs are often isolated from the mainstream of the American labor market. Public programs should not be seen as trainers and employers of *last resort* for the poor, concludes Osterman. They should serve a broader base of people so as to better integrate participants into the economy. Ray Marshall also advocates a broad national strategy, but stresses that in a time of tight budgets the main priority should be to build quality programs for those who most need them. He points out that Job Corps graduates are not stigmatized. This is because the program *works*--with 28 hours of instruction the Jobs Corps can raise a typical enrollee's math ability by 1.4 years, and his or her reading ability by one year. Fully funding Job Corps and similar proven programs is an obvious first step.

Ray Marshall also advocates a broad national strategy, but stresses that in a time of tight budgets the main priority should be to build quality programs for those who most need them.

Similarly, Osterman argues for a substantial reorganization of the *delivery system* for employment policy--advocating a new comprehensive locally based labor market agency which would end the current fragmentation of programs. Marshall, on the other hand, believes we should place our priority on strengthening existing

agencies by adequate, consistent financing and particularly by the development of managerial capacity.

These and other issues were discussed by Marshall and Osterman and the other participants in the seminar. It was a rich, varied and informed dialogue. Anyone concerned with the practical next steps toward revitalizing our labor market policies to make Americans more competitive will profit from reading these insights and sensible recommendations.

Anyone concerned with...revitalizing our labor market policies...will profit from reading these insights and sensible recommendations.

-Jeff Faux
President
Economic Policy Institute

Participants

Economic Policy Institute
Seminar on Labor Market Policy
April 29, 1988

Chris Balderston
Office of Federal-State Relations
State of Massachusetts

Ron Blackwell
American Clothing and Textile Workers Union

Paul Boldin
AFSCME

Peter Carlson
National Alliance of Business

Peggy Connerton
Service Employees International Union

Paula Duggan
Northeast-Midwest Institute

Ross Eisenberry
Office of Congressman Ford

Fred Feinstein
House Subcommittee on Labor-Mgmt. Relations

Jim Ellenberger
AFL-CIO

Jeff Faux
President, Economic Policy Institute

Sean Foley
Office of Congressman Levin

Cal George
National Committee for Full Employment

Woody Ginsburg
Center for Community Change

Carol Hedges
Committee on Human Resources
National Governors Association

Eric Jensen
House Subcommittee on Employment Opportunity

Cliff Johnson
Children's Defense Fund

Mark Levinson
United Auto Workers

Sar Levitan
Center for Social Policy Studies

Susan MacGuire
House Subcommittee on Education and Labor

Ray Marshall
LBJ School of Public Affairs
University of Texas

Jane McDonald-Pines
HRDI, AFL-CIO

Rob McGarrah
AFSCME

Liz McNichol
Service Employees International Union

Iles Minoff
HRDI, AFL-CIO

Larry Mishel
Research Director, Economic Policy Institute

Sigurd Nelson
Government Accounting Office

Leslie Nulty
United Food and Commercial Workers

Paul Osterman
Sloan School of Management, MIT

Rudy Oswald
Economic Research Dept., AFL-CIO

Mark Roberts
Economic Research Dept., AFL-CIO

Robert Rogers
Government Accounting Office

Sharon Stout
Research Associate, Economic Policy Institute

Carol Stringer
House Subcommittee on Education and Labor

Dan Tarullo
Senate Subcommittee on Labor and Human Resources

A New Labor Market Agenda

Ray Marshall

Recommendations to the New Administration

My first recommendation to a new administration would be to initiate and build consensus for some clear economic policy objectives and some realistic strategies to achieve those objectives. Experience in the United States and elsewhere demonstrates very strongly that superior economic performance requires consensus-based objectives. Indeed, a strong case can be made that consensus-building processes and clear goals and objectives are major reasons why countries like Japan and Sweden have superior economic performance to the United States on most important indicators, especially productivity, unemployment, and real income growth. These countries know what they want their economies to do and have built consensus for those objectives and for the strategies to achieve them. The United States, by contrast, not only has no clear objectives or strategies, but does not even have an effective process to agree on national economic goals.

My suggestions for the basic economic objectives would be a just, full employment economy with high and rising earned incomes.

My suggestions for the basic economic objectives would be a just, full employment economy with high and rising earned incomes. I also would recommend that we learn from countries like Sweden and Japan about the importance of pursuing basic objectives *simultaneously* rather than assuming that inflation, unemployment, high and rising wages and equity are necessarily incompatible trade-offs. It seems to me that the best strategy is to pursue these objectives simultaneously, but if forced to make a choice, I would not use high levels of unemployment to combat inflation. I would, however, attempt to develop consensus for general procedures to promote noninflationary growth in employment and real wages.

The cornerstone of such a strategy is the recognition that expenditures on the development of human capital--knowledge, attitudes, skill, and health--are high yield investments and not just budget costs.

I would, secondly, try to convince the new administration that the achievement of these economic goals requires an array of international, macroeconomic, and selective policies and policy instruments. While general macroeconomic and international policies are necessary to a high-wage, full employment economy, these general measures will not be very effective unless they are supplemented by targeted labor market and human resource development policies. The cornerstone of such a strategy is the recognition that expenditures on the development of human capital--knowledge, attitudes, skill, and

health--are high yield investments and not just budget costs.

We...need to define competitiveness as being able to compete in international markets on terms that...maintain and improve our real incomes.

I believe there is broad public support for this approach. The big question in people's minds is not the basic objective of developing our people, but whether we can develop efficient education, training, and labor market systems. That is the reason I agree with Paul Osterman that high priority must be given to the systems and subsystems we have developed to deliver labor market and human resource development services. In other words, the evidence suggests that people probably are willing to make the investments if they are persuaded that public resources will be used efficiently.

The Meaning of Competitiveness

There is much discussion these days about competitiveness, though not much agreement on what that term means. Conservative economists and politicians argue that the United States is not losing its competitiveness because, even though employment growth slowed significantly during the 1980s, we have been able to achieve high growth in employment relative to other countries. Even some less conservative (or neo-conservative) economists argue that our main problems are due to poor macroeconomic policies, and not the competitiveness of our industries. In this view, we were able to maintain economic balance during the 1970s--i.e., we were able to export about as much as we imported and therefore had rough external balance. According to those who hold this view, correcting the Reagan Administration's macroeconomic policy mistakes will solve our problems.

The trouble with both of these positions is that they ignore the effect of economic developments during the 1970s and 1980s on real wages and incomes. We were able to pay for our rising imports during the 1970s only by devaluing the dollar and reducing our real incomes. In the 1980s we were able to pay for rising imports only by heavy borrowing from foreigners; we thus have simply delayed the reductions in real incomes until we pay our bills.

We therefore need to define competitiveness as being able to compete in international markets on terms that will make it possible for us to maintain and improve our real incomes. If we ignore incomes, there is no competitiveness problem. The policies that must be

taken flow directly from how we define the problem. If you define competitiveness as I have, which I naturally think is the appropriate way to do it, it is clear that we can compete either by lowering our standard of living or by improving the productivity of our systems and people, which really means to have people who can develop and use leading-edge technology.

We need to recognize that people will either be almost unlimited economic assets--if they are well educated, well trained, healthy and highly motivated--or they will be serious liabilities. We don't have to look very far to see the extent to which we can pay very heavy costs for failing to develop our people. It costs us over $15,000 a year in operating costs (i.e., not including construction costs) to keep someone in a Texas state prison. I expect the total cost is over $30,000 a year. Ninety percent of those prisoners are functionally illiterate. There is a better way to use our resources.

Labor market policy complements, and does not substitute for, other policies.

Creative Pragmatism, Not Blind Ideology

I also would advise a new administration to avoid the kind of ideological decision making that has characterized the Reagan Administration. It was exceedingly naive, for example, to assume that the huge 1981 tax cuts would so stimulate saving and investment that the federal budget could be balanced by 1983, as supply-side ideologues originally promised. Similarly, the Administration's ideological opposition to government has made it difficult to build the kind of workable public-private partnerships required for effective problem solving and policy formulation. The lesson of history is that *creative pragmatism*, not blind ideology, is responsible for America's greatest achievements.

The Role of Labor Market Policy

I would, in addition, stress the role of labor market activities in general economic and social policies. Several points need to be emphasized. First, labor market policy complements, and does not substitute for, other policies. Unfortunately, advocates frequently imply that labor market policies can substitute for effective macroeconomic trade and social policies. That clearly is not the case.

Secondly, we need to emphasize the *rationale* for targeted labor market policies. There are three justifica-

Macroeconomic policy is thus a very inefficient way to deal with a structural problem.

tions for targeting. The first is efficiency. If we target a problem, we can solve it more effectively than if we use macroeconomic policies alone. It is, for instance, very inefficient to use macroeconomic policies alone to reduce unemployment. With targeted programs, we used to argue that the net cost per job was something like $7,000 or $8,000 whereas if you use tax cuts the cost was $30,000 to $35,000 or more per job. Macroeconomic policy is thus a very inefficient way to deal with a structural problem.

Thirdly, selective policies are *equitable* because they permit resources to be targeted to the people with the greatest need. Selective policies promote price stability--i.e., targeting will have less inflationary impact than anything else we can do to reduce unemployment. Macroeconomic policies generate inflationary bottlenecks in tight labor and product markets long before unemployment is reduced to acceptable levels in markets with high levels of unemployment.

Unfortunately, the United States has never given labor market activities the kind of tests they need. The Swedes have made much more effective use of these policies. We can't emulate them, but we can learn from their experiences. The Swedes have reduced unemployment to about three percent; they also have a relatively high standard of living. They make very efficient use of their resources and they do it in a very democratic way.

With their so-called *active labor market policy*, the Swedes invest heavily in their people. About 40 percent of the adult population in Sweden is in some kind of education or training program. They spend about the same amount, in the aggregate, on labor market programs as we do, yet have only 1/20th of our workforce. If labor shortages develop, they train people or provide incentives for relocation, rather than trying to either restrict wage increases or to rely exclusively on wage differentials to allocate labor. Labor market policies contribute importantly to Sweden's relatively successful policies of simultaneously combatting inflation and unemployment.

The Swedes also believe that flexibility in labor markets comes from having people who are well trained and well educated. If you want an adjustment program to shift resources from noncompetitive to competitive areas, you need to have people who can adapt and move quickly into other kinds of activities.

Of course, full employment also facilitates adjustment. There is a lot less resistance to change at full employment than with the levels of unemployment we normally have.

But, some people argue, the trouble with the Swedish model is that it is very inflexible because government bureaucracies control everything. There is, however, no evidence for this argument. In fact, a very interesting study recently conducted at the London School of Economics to determine the adaptability of 18 OECD countries found that Sweden was the most adaptable and the United States was the least.[1] It is not hard to understand why that is the case. We have a system that shifts the cost of change to workers and low-income people. It is not surprising that the losers resist change; if we had an equitable sharing of the benefits and costs where people were going to be about as well off, regardless of how they adjusted, they wouldn't resist change. That's part of the secret of the relatively successful Swedish and Japanese adjustment policies.

There is a lot less resistance to change at full employment than with the levels of unemployment we normally have.

The Components of Labor Market Policy

Time will not permit me to evaluate all of the components of a labor market policy, but let me make several observations. First, except for national programs like the Job Corps, the combination of labor market services to be delivered should be worked out by local labor market institutions. Second, it is more important at this juncture to work to improve labor market institutions and to perfect the system than it is to concentrate on program components. Experience in the United States and abroad has given us a pretty good idea about the array of specific programs available to improve employment and income opportunities and to improve the operation of labor markets. Besides, if we improve the system and attract, train, and retain good managers and operators, they will put together the array of services suited to each locality.

My list of labor market components would include: a timely and accurate labor market information system; various support activities for people undergoing training or placement (i.e., income, child care, counseling and assessment, relocation assistance, transportation), basic education, training, and public service jobs. From this array, program operators can put together appropriate

We have a system that shifts the cost of change to workers and low-income people. It is not surprising that the losers resist change.

combinations for programs to deal with particular problems.

We discover very high negative correlations between test scores and such problems as teenage pregnancy, drug abuse, dropping out of school, or being arrested, jobless, or poor.

For example, we need a greatly improved adjustment program to facilitate the shift of services from noncompetitive to competitive activities and to promote an equitable sharing of the benefits and costs of change.

Education and Schooling

We also have to be very concerned about *basic education.* In many cases, people are *not* being well educated in our public schools. This is very important because the evidence is overwhelming that problems with basic educational skills are highly correlated with all kinds of social problems. In this connection, the recent book by Gordon Berlin and Andrew Sum[2] brings together some very useful material for labor market policy. There is, however, a big difference between *schooling* and *basic education.* If education equaled schooling we wouldn't have so many illiterate high school graduates coming into the Job Corps. Once we substitute educational achievement as measured by scores on such tests as the Armed Forces Qualification Test (AFQT), which I am told is about as culturally unbiased a test as you're likely to find, we discover very high negative correlations between test scores and such problems as teenage pregnancy, drug abuse, dropping out of school, or being arrested, jobless, or poor. Many students drop out because they get farther and farther behind in educational achievement; they don't have the basic competencies to deal with problems. Similarly, basic education is a major factor determining the success or failure of adjustment programs for dislocated workers.

We also have learned how to deal with that in a very cost-effective way. The technology is being developed rapidly. I don't mean technology in the sense of machines. I mean the way we *do* things. There is evidence from work initiated by the Job Corps that with 28 hours of instruction you can advance students in mathematics by 1.4 years and one full year in reading. We ought to attach these education technologies to all of our jobs programs, and we ought to put these technologies in schools, housing projects and in any place where people can use them. People who are embarrassed about their educational deficiencies are more apt to participate

in these programs because this is not typical literacy training--they're learning computers. We found in the Job Corps that young people really seem excited about this learning system. It is competency-based, self-paced, non-judgmental and color blind.

The second lesson from Berlin and Sum's book is how important the education of young mothers is in determining how well their children do: breaking the inter-generational poverty cycle. This, too, is an area where education and positive outcomes are very highly correlated. Some children are behind when they enter Head Start, kindergarten, or the first grade because they were low birth-weight babies; in fact, birth weight is a predictor of whether children will drop out. What kind of nurturing they got from birth to age three as well as their mother's ability to teach them will have a lot to do with how well children do in school. Small children are like good scientists--stating hypotheses, having a great deal of curiosity, testing hypotheses. Yet, somehow, when they get into schools all of that seems to get turned off. We need to strengthen and enlarge the kind of active learning processes involved in Head Start, which can compensate for some of the learning and nurturing deficiencies in many poor families.

Small children are like good scientists--stating hypotheses, having a great deal of curiosity, testing hypotheses. Yet, somehow, when they get into schools all of that seems to get turned off.

In addressing the problems of young mothers, we need therefore to include programs like Women, Infants, and Children food supplement program (WIC) and Head Start. We have focused on symptoms and not on basic problems. For example, in the case of teenage mothers, we rarely find just one problem. They have basic education, health, psychological and income problems. Contrary to the basic assumption, however, many of these young mothers do escape from poverty. But the common thread is that those who escape from poverty and welfare dependency acquire basic competencies.

Another serious problem underscored by Berlin and Sum's book is the *summer-loss phenomenon*: during summer vacations low-income students apparently tend to forget a lot that they learned during the school year. Everybody slips some in education achievement during the summer, but low-income people slip a lot more and that apparently is a major reason for the educational achievement differences between advantaged and disadvantaged students. Tests before and after the summer recesses show a much steeper decline for low-income students. According to one study conducted in Atlanta, 80 percent of the educational achievement difference between advantaged and disadvantaged children was due to summer loss. The implication of this, of course, is

US labor market policies are seriously deficient...in providing for school to work transitions.

that we should incorporate a basic education component in summer youth programs. Early results for the so-called *STEP program*--which is a pilot project to see if basic education could be attached to summer youth programs--suggests that it can more than overcome the math loss and greatly reduce the reading loss. So clearly, basic education must be a fundamental component of selective labor market policies.

Another component, and one where US labor market policies are seriously deficient, is in providing for *school-to-work transitions*, especially for the approximately 20 million 16 to 24 year-olds who are not likely to go to college.[3] As the Grant Commission interim report documents, young Americans who are not college bound face very serious labor market problems. They are locked out of most high-income occupations. The high-paying, stable jobs and good jobs formerly available in manufacturing to people with limited formal education are disappearing and being replaced by jobs that pay much lower wages and have less job security. As Frank Levy has demonstrated, the differential between the incomes of college and non-college-educated young people has increased from 15 to 20 percent in the 1960s and 1970s to almost 50 percent in the 1980s.[4]

Educational equity as well as economic efficiency require much more attention to education, training, and labor market information systems for the non-college bound. Over $10,000 a year is spent on each college student (about half of which comes from public expenditures), while we spend very little on the non-college bound youth, despite the finding that the economic returns to investments in programs for the non-college bound yield very high individual, social, fiscal, and corporate returns.

The things that must be done to improve economic opportunities for the non-college bound (assuming full employment, general economic policies are in place) include:

1. Better basic educational training for low-income students, especially education reforms that include educational equity as well as improved learning processes.

We spend very little on the non-college bound youth.

2. Measures to break down the barriers between school and work. This includes better coordination between schooling and work programs, and measures to prevent students from dropping out and to make it easier for school leavers to continue developing their

knowledge and skills. Community colleges have an important role to play in this, and there should be better coordination between secondary schools and community colleges.

3. Community and neighborhood services, including an expanded youth corps, modeled after the New Deal's Civilian Conservation Corps and those which currently operate in 14 states and 12 cities on a year-round basis.

4. Redirecting *vocational education*, to provide practical experience and solid basic education. In fact, we need to reduce if not eliminate the distinctions between *vocational* and *academic* tracks.

5. Educational entitlements for participants in employment and training programs modeled after the GI Bill, for reasons of educational equity, as well as to provide *incentives* for students to perform well in school and training programs.

6. Improved labor market information and counseling systems.

7. Expanded and improved *added chance* training systems for young people who are not college bound.

Public-service employment (PSE) is a valuable component in any employment and training strategy. Indeed, the evidence against PSE is not very credible. Again, however, we need youth programs that couple public service employment with basic education. *That* combination would do a lot to improve the conditions of unemployed and low-income workers.

We need youth programs that couple public service employment with basic education.

Lessons From Experience

So, I would recommend that the next administration learn from the experiences of the United States and other countries before it puts its programs together. These lessons include the following:

First, recognize that in spite of all the criticism and evaluation, a selective labor market policy is a very valuable part of any overall economic policy; it would provide equity, efficiency and stability. By those standards, selective labor market programs have done pretty much what they were designed to do: they helped those people most who needed the most help. Careful evalua-

tions show these programs to have done the most for blacks, women, and low-income people; at least they did more for those low-income people who could get into training programs. These programs actually serve a relatively small percentage of their targeted populations.

It would be a huge mistake to use benefit-cost analysis as a decision-making process, rather than as a decision-making tool.

Secondly, I would advise the next administration to be very careful about evaluations and how they are interpreted. It would be a huge mistake to use benefit-cost analysis as a decision-making process, rather than as a decision-making tool. Benefit-cost analysis is an art form--it's not a science; we should therefore pay some attention to it but not get carried away by it. People often make sloppy inferences from deficient data. For example, one of the common arguments about the public service employment buildup after 1977 was that we created a lot of problems because we tried do it too fast. Most of the evidence used against the buildup came from evaluations that were coming out at the same time that the program was being expanded, but these data were based on 1974-1975 program experiences, not those of 1978-1979. Actually, in 1976 Congress corrected some of the early problems, and we corrected others as the program expanded in 1978 and 1979. Critics were citing evidence from 1974-75 to argue that the program was flawed in 1978-79. The point is clear: unless the numbers relate to the same point in time, they misinterpret what is going on. Clearly, an evaluation of past programs that concludes that those programs *didn't* work doesn't tell you that those programs *can't* work, especially if we allow the programs time to learn from their mistakes. Moreover, most evaluations focus on *averages* and therefore tend to obscure a lot of successful outliers--situations where the programs were very successful and had a significant impact on the lives of people.

An evaluation of past programs that concludes that those programs didn't work doesn't tell you that those programs can't work.

It is also sometimes hard to know how to add up program outcomes. One of the most important labor market innovations from the 1960s, for example, was the *outreach* concept, which did a lot to break down discrimination. In fact, these outreach programs substantially overcame the problem of discrimination in many of the skilled trades. When these programs were started in the early 1960s, blacks were about two percent of apprentices and now they have a higher proportion in those programs than their proportion of the workforce. If we evaluated solely in terms of benefit-cost, we would lose sight of the fact that they helped break down discrimination. How much do we give for changing an institution? That's hard to quantify in a short-run, benefit-cost study. I place high value on outreach pro-

grams because I think institutionalized discrimination was (and remains) a very important problem. Outreach and other employment and training programs also developed community leaders and institutions to help deal with serious social and economic problems. How many points do we give for that? I would give a lot, because democracy is strengthened when we empower people to deal with their own problems and build their own institutions.

Democracy is strengthened when we empower people to deal with their own problems and build their own institutions.

Public Service Employment (PSE) has, in addition, been criticized on the basis of studies that do not seem to understand that the main function of PSE was *not* to improve the long-run earnings of participants; it was to give unemployed people jobs and income and to get some useful work done.

We evaluated the Youth Employment Demonstration Project Act (YEDPA) in 1979. One-fourth of the growth in teenage employment between December 1977 and December 1979 was in YEDPA, which accounted for three-fourths of the growth of black teenage employment.[5] This was the first increase in black male teenage employment in the whole decade of the 1970s. Black male joblessness remains a very serious problem in this country. If we try to deal with ghetto-type unemployment--whether in rural areas or urban areas--without PSE jobs, we are going to have trouble; we are not likely to get regular public or private employers to provide jobs for the seriously disadvantaged to which we can attach basic education and other services.

Another valuable labor market policy was supported work, which clearly worked for some people and not for others. Welfare mothers increased their earnings by 50 percent and their hours worked by 35 percent. Welfare mothers in supported work programs were twice as likely to get off welfare as the control group. That strikes me as a fairly successful program.

I see some similarities in the so-called *effective schools research* and our experiences with employment and training programs: in both activities early quantitative analyses reached negative conclusions because they averaged the successes and failures of individuals and institutions. A benefit-cost analysis would say, on the average, they didn't do very well. Well, that may be. I think that's useful to know. But let's go beyond those averages and acknowledge that these programs did a lot for some people, assess why they did so, and determine not only what we can learn from these successes, but also how we can build upon them.

Programs were more effective if we gave them adequate resources and time to work out their problems.

Another valuable lesson is that the programs were more effective if we gave them adequate resources and time to work out their problems. The Job Corps was the only program we really gave sufficient time and I think we learned a lot from that very valuable institution. One such lesson relates to program administration. We learned, for example, how important it was not to have automatic pass-throughs of money. With automatic pass-throughs, funds go to officials whether or not they have the ability or the will to make good use of those resources. To avoid this problem, wherever possible funds should be distributed through a bidding system that includes careful performance standards. That way, we can tell people, "If you don't want to achieve stipulated program outcomes, let us know and we will let somebody else have the money."

The Job Corps does something very similar. There are no presumed prime sponsors and programs have to demonstrate performance--two reasons it has done as well as it has. The Jobs Corps has had some stability partly because of political institutionalization. As a consequence of the fact that Job Corps' activities are widely distributed and have demonstrated their value to the country, their participants, and the geographic areas in which they operate, opponents will have trouble abolishing this institution on purely ideological or political grounds, as the Reagan and Nixon administrations learned.

We need to perfect the labor market system in order to make it achieve our basic objectives. We need to strengthen some traditional labor market institutions as well as the newer *second chance* programs. We should, for example, strengthen the apprenticeship system, one of the most effective learning systems ever developed. Unfortunately, however, the American apprenticeship system is concentrated in a very narrow range of occupations and therefore needs to be broadened and applied to new activities.

In this regard, I agree with Paul Osterman that community colleges should have an important role in our second chance learning system for the non-college bound. Community colleges do not need to focus entirely on academic work, but they probably need to pay more attention to academic activities than they do in order to keep the options open for their students to attend four-year colleges and universities. In fact, in community colleges and secondary schools, a false distinction often is created between *academic* and *vocational subjects*; the

best vocational academic programs have high academic content and the best academic programs have high practical content.

We need better data about learning systems as well as about the demand for and supply of workers. The only numbers I know of that give us much insight into private training programs are those provided by a Rand study and the data from Tony Carnevale at the American Society for Training and Development (ASTD). He reports that in the mid-1980s we spent about $453 billion; the private sector spent $210 billion of that.[6] A study for the Carnegie Corporation found that these companies had eight million students.[7] The Rand study suggests that there is a lot of learning going on in private firms.[8] We need to know much more than we do about these private sector activities and how they can be related in a *seamless web* to our overall human resource development activities.

We need better data about learning systems as well as about the demand for and supply of workers.

What we do know suggests that much is being done and that even some of the most effective research on learning is being done by American corporations and not by universities. However, the private sector, especially the big corporations, appear to be highly selective if not discriminatory: the people who get the opportunities with steep learning curves in corporate education systems tend to be mainly white males. The Rand study pretty well documented that finding. Women, black or white, tend to have opportunities with flatter learning curves and minority males have the poorest learning opportunities of all. We ought to encourage effective private systems, but we ought to pay careful attention to whether or not they are discriminating.

Another problem with these corporate systems is the fact that they exist mainly in large corporations while most of the job growth is in relatively small companies. Our labor market policies therefore should encourage the development of learning systems in small companies.

I commend to your attention Sar Levitan's new book (with Frank Gallo), entitled *A Second Chance*, which focuses on second-chance training system. This book has a very good critique of the Job Training Partnership Act (JTPA), the main federal second-chance system for at-risk young people.

My experience provides some insight into important aspects of federal employment and training programs that usually are ignored by academic researchers. For

instance, few evaluations analyze the relationships between the annual budget cycle and program performance. We need trust funds, or other ways to give the people who operate these complicated systems more financial stability. Without greater funding stability, it will be very difficult to build programs to deal with complex labor market problems.

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There is another lesson we can learn from the effective schools research. In essence, all of that research produces one major conclusion: effective schools had good leadership, and particularly good teachers who were able to figure out what was needed in a local situation and put together programs to meet the students' needs. Similarly, if we want to have effective labor market institutions we must create and maintain a cadre of well-trained local, regional and national labor market specialists. We should, of course, create effective labor market institutions, within which these specialists can operate.

My recommendation would be that we move toward local labor market boards combining the Private Industry Councils (PICs) with something like the Education Work Councils Willard Wirtz set up to better coordinate education and other labor market activities. No labor market system would be effective without an efficient labor exchange system. Except in wartime, we've never really tried to have an effective labor exchange. No one has concentrated enough attention on the US Employment Service (USES) to see what we really need to do about it. Congress has reduced the Service's resources while assigning it new tasks and has failed to provide adequate direction or the success indicators needed to judge the USES' activities and to provide incentives for better performance. My recommendation to the new administration is that it concentrate on making the Employment Service a source of good information about local labor markets, as well as of good counseling, personnel assessment, and labor market information generally.

We also should strengthen other labor market institutions, especially community-based organizations (CBOs), which have important advantages in relating to particular populations.

No labor market system would be effective without an efficient labor exchange system.

We should, in addition, encourage the development of national organizations to render highly specialized technical services. Bob Taggart, for example, has put together a franchising operation for very effective comprehensive competency programs. Where we have such highly specialized activities that work, it is important to

have a network to provide oversight and technical assistance. Bob has over 250 of those programs around the country. We have several in Texas, and I am impressed with what they are able to do. They not only have been able to give their participants a second chance, but also have the stability to perfect their technology.

The delivery system for employment and training programs currently focuses too much on inputs and processes instead of outcomes.

An Effective Delivery System

Let me make some final comments about improving the delivery system for employment and training programs, which currently focuses too much on inputs and processes instead of outcomes. The general requirement for a reformed system is a stable federal-state-local system that supports the flexible local delivery of services and is responsive to changing labor market conditions and service needs.

The labor market services to be delivered by this system should be financed from a variety of sources, including general revenues, but should rely as well on fees for some services. Eligibility should be based on prior participation (contribution) in the system and specific stipulated labor market conditions. Income support should be available for unemployed workers, but beyond some time period income support should be conditioned on participation in knowledge and skill development or other adjustment activities.

It makes sense to phase out separate identifiable programs only for the poor or the unemployed. We should think of learning systems for all who need them, though as a practical matter some programs will have participants who are mainly poor or unemployed. The development of a *system* to meet the diverse needs of *all* workers would avoid the *stigma* problem of having programs mainly for the poor or unemployed. It makes sense, for example, to develop a national youth service that would include advantaged and disadvantaged young people. Such a program could have the advantage of bringing young people from various backgrounds together to perform important public services not otherwise likely to be performed. The attachment of GI Bill-type education and training entitlements to the National Youth Service (NYS) could serve the dual purpose of providing incentives for satisfactory performance and making it possible for young people to continue their education. Important administrative problems would be associated with a large-scale NYS, but these could be

It makes sense to develop a national youth service that would include advantaged and disadvantaged young people.

overcome by building incrementally on present federal, state, and local programs.

Recognize the value of those programs, ...increase... the valuable programs we know work...experiment where there is doubt.

In all phases of the federal employment and training systems, policy formulation and performance evaluation should be separated from program delivery functions. We should establish tripartite human resource development corporations as policy and management entities at the federal, state, and local levels to set goals and objectives and establish performance and evaluation criteria. These entities could contract out service delivery to appropriate public and private organizations, mainly at the local level, but sometimes through appropriate national franchise organizations.

Local systems should be organized around activities to get people into service delivery systems (outreach, recruitment, intake assessment, testing, counseling, and referral); development services (education, training, work experience, relocation assistance); and services to place people on jobs and follow up to determine program results. Each of these activities would have such appropriate supportive services as child care, transportation, health care, insurance, and temporary income.

My final advice to the new administration is to recognize the value of these programs, try to perfect the system, increase, as fast as possible, the valuable programs we know work, and experiment where there is doubt about what does and does not work. Don't assume, as is frequently done, that an experiment is a program--that if it fails, this necessarily means the program won't work. If we are dealing with complicated problems, we are going to have failures, and we ought to acknowledge that. We must understand, moreover, that we are not likely to have a just, full employment, high-wage economy without well developed and effective labor market policies and institutions.

Discussion

(From EPI Seminar on Labor Market Policy, April 29, 1988)

PAUL OSTERMAN: I think the issue of stigmatization is really crucial. Let me describe to you the one piece of research that I know of on that issue. A group of people were selected in Ohio: of that group, some were offered Tax Job Training Credits (TJTC) and some (identical in other respects) were not. Each group went to employers and said "Hire me." One group had training vouchers; the other group didn't. The *non-vouchered* group was hired at a higher rate than the vouchered group. In this study, having a voucher and saying "Hi, I'm from the employment and training system" cost people employment. There is a lot of evidence, both in this kind of study and also in conversations with employers, that there is a real problem with people coming out of the system saying "Hi, I am being trained by ABCD and I'm a poor inner-city welfare mother, hire me." Except for very real financial constraints, I don't really understand the case against broadening the system by providing employment and training programs for a large part of the working population. The programs will be politically popular and the stigma faced by low-income workers coming out of these programs will be removed. With broader programs we will have to assure that resources go to target groups. For instance, you can assure that 40 percent of the resources are going to a particular group, even though they are part of a larger program, so that graduates are not coming out of a targeted narrow program. So whether or not you fully accept the stigmatization argument, I think that there is enough to it that you really have to develop a case against broadening programs; and I don't see that case except for the fiscal constraints.

When we build quality programs we remove the stigma.

RAY MARSHALL: When we build quality programs we remove the stigma. We need to build support for active labor market programs--and one of the ways we build support is to make people believe these *are* quality programs. I do not believe, for example, that the Job Corps is a stigmatized program, and I think it has had a long-term impact. Part of the impact of Job Corps is that it has gotten people into other learning systems that had a huge impact--such as higher schooling or the

We already subsidize education and training programs for middle-income people much more than we subsidize programs for the poor.

military. I think a long-term assessment of the Job Corps shows that it had a substantial influence in participants' income. It's hard to answer "Well, how much of that was the Job Corps?" but we do know that before they got into the Job Corps, they were seriously disadvantaged young people headed for serious trouble and that once they got in, many received a new orientation. They were moved from highly vulnerable environments and some were even prepared for the military, community colleges, other post-secondary institutions, or work. That's one of the problems with short-term evaluations. I'm reminded that early evaluations of Head Start said that it had failed; now the evaluations conclude that Head Start is one of the most cost-effective programs we've ever had. It depends on the period of time over which we track participants.

But I also believe that funding and political and institutional instabilities are important issues. Except for a few exceptions like the Job Corps, none of these programs were left alone long enough to make it possible for them to solve their problems. One of the reasons the Job Corps has been a truly effective program is that it was able, with some difficulty, to maintain enough continuity to become institutionalized. None of these other programs have been able to do that; the others were jerked around every few years. Having been responsible for the administration of such programs and then also being chairman of the Texas State Job Training Coordination Council for four years, I'm sympathetic to the need to leave things alone for a while to permit some institutional stability and to provide some certainty about funding. We also need to develop and maintain a stable cadre of well-trained, highly-motivated people to administer effective programs at the local level; this would be the counterpart of effective teachers in the schools. That cadre will then be able to put together programs that will deal with the unique problems in each place. We need to recognize that we already subsidize education and training programs for middle-income people much more than we subsidize programs for the poor. Our whole education system is tilted toward middle-income people. We need a broader perspective. We have to grapple with priorities in helping people coming into the programs. I think we *cream*, and that's not good. We need to have mechanisms to get to those people who need help.

ROSS EISENBREY: The Job Corps is one of the most interesting employment programs that we see on the Hill, due to its treatment. The Reagan Administra-

tion praised it as a wonderful success back in 1982. Soon after, however, they were trying to cut it and cut it.

All the evidence is that it *is* cost-effective, that it *is* the best program of all times in American job-training--yet there is not an effort to quadruple it.

RAY MARSHALL: If I have anything to do with it, there will be. That's what we did in the Carter Administration; we doubled it in four years. If we had survived, I would have recommended that we double it again. Anyhow, the basic principle is to expand activities that have demonstrated their effectiveness as fast as possible, consistent with administrative efficiency. I would double WIC, Head Start, and Job Corps, for example. The WIC program is one of the best training and education programs you can conceive.

The basic principle is to expand activities that have demonstrated their effectiveness as fast as possible, consistent with administrative efficiency. I would double WIC, Head Start, and Job Corps, for example.

RUDY OSWALD: Unfortunately, the total number of people serving in the Job Corps is really very small.

RAY MARSHALL: The total number of people served by Job Corps' spinoffs is much greater. They all need to learn about teaching technology, for example. The Job Corps has been a laboratory in compensating for the educational deficiencies of the schools. With 28 hours of instruction, they can move someone 1.4 years in mathematics and one full year in reading. Talk about stigma--one of my law school colleagues came to me and wanted to see what I could do to help get his son into the Job Corps. The California Conservation Board reserves some Job Corps positions for law schools and they have some participants from law schools.

MARK ROBERTS: I would like to get your response on the question of selectivity versus universality. No matter who wins in the November election, to get programs pushed along they have to appeal to the middle class--so that you have to emphasize a kind of universality for the programs, whether new or old. The other side of the issue is that we need to be more selective because targeting is equitable, efficient and gives stability. What are your ideas on striking some balance between universality and targeting? How can we balance helping the down-trodden, the low-income, disadvantaged minorities while also wanting universal programs that are going to help the middle class, so that those people

who pay the taxes are going to feel that they and their children are getting benefits out of all that's being done?

We are going to get crime, a reduced living standard and a lower quality of life for everybody if we don't make these human resource investments.

RAY MARSHALL: This question is terribly important, yet I don't really know exactly how you do it. We have to deal with constituents, which is one of the main reasons we created the Private Industry Councils (PICs). We wanted to get some private-sector support for the system; there was therefore a political reason for that name. I hoped all along that we could get business support, but to let the PICs evolve into local labor market committees.

I hope we can convince the middle class that it is going to cost them a lot *not* to deal with this problem, and that they are going to pay sooner or later. I believe that we can see this happening. In 1987 the Committee for Economic Development (a business organization) published *Children in Need*, a very good report, which recommended programs like WIC and Head Start and concluded that it is going to cost us a lot not to deal with the problems of poor children and families. Part of the argument is demographic: where is our workforce coming from? The clear lesson is that these problems are not going away. We are going to get crime, a reduced living standard and a lower quality of life for everybody if we don't make these human resource investments. It's going to cost us a lot more not to deal with those problems than if we invest in our people now. We therefore need to convince the public that these programs are good investments. For instance, the return on investment on the WIC program is three to one, and on Head Start four to one.

I think that we have some very dangerous attitudes in this country. One is that these programs are all costs and not investments. The second is that achievement is due mainly to innate ability. If you really believe that, you are not going to support these programs. You are going to say "Well, these poor people get what they deserve--and, of course, the rich by definition also get what they deserve and it's due to personal merit." Someone did a poll that compared Minnesota mothers and Japanese mothers' attitudes. Japanese mothers all said hard work caused their children's achievement. Minnesota mothers thought it was innate ability. But *all* of our kids can learn and can get into the mainstream, if we create the right kinds of institutions to make that possible.

But all of our kids can learn and can get into the mainstream, if we create the right kinds of institutions to make that possible.

We ought to open up the Job Corps to middle-class kids, as the California Conservation Corps has done. We need some kind of institution to bring us together, so that people can get common experiences, especially young people. Our schools are becoming segregated now by class, and I expect they are going to continue to be unless we work at it.

There is something to be said for youth service programs like the California Conservation Corps and others where you create opportunities for young people to work together. We ought to build on that. We ought to have service programs for high school and college students, and make it possible for them to work together on common undertakings.

Our subsidies for human capital should be at least as high as they are for physical capital and we ought to create tax incentives if we can.

LARRY MISHEL: I want to continue on this point about universality. We can learn a lesson from our experience with Social Security under Reagan. Reagan was unable to make substantial cut-backs in Social Security because a broad majority of the population--the middle class, if you will--felt ownership over the system. The parallel in employment and training would be to reach more into the mainstream of workers. We could have programs that deal with workers who are still on the job. The move to expand dislocated worker programs is a step in this direction. In what ways can you see upscaling employment and training programs?

RAY MARSHALL: One way to do so is through apprenticeship training, which I believe in. I was, for several years, chair of the Federal Committee on Apprenticeship. That forum has a lot to commend it. I don't know exactly how you go about funding broader programs. There are all kinds of problems, but our subsidies for human capital should be at least as high as they are for physical capital and we ought to create tax incentives if we can. The community college notion is a good one. We ought to encourage the collectively-bargained programs conducted by the United Auto Workers and Communications Workers and others. In fact, I think it should be a bargaining issue. The companies need to be asked why they spend so much on management training and so little on blue-collar training, especially when the evidence shows that the payoff for investments in blue-collar workers is higher than for college-trained workers.

Paul Osterman raised a good point about the need to break the benefit-cost cycle. Businesses are so fearful

I think part of it is that Americans really don't value education. They tend to value schooling and we have to value education rather than schooling.

that trained employees might quit and that they therefore might not get an adequate return on their training investment that they don't train their people. If employers give workers job security, they internalize the costs and benefits of on-the-job training. My sense is that that's going to happen anyway.

We need really effective information systems, to find out what training is taking place. The numbers that the ASTD put together are shaky: they are based on decomposition of productivity numbers, not actual surveys. We need to find out more about what kinds of education and training actually are going on. We really don't have a very well developed adult education system. We have an expensive one, but it's not very well developed. I am not sure it's an accessibility problem and I would want to study that more. Some of my friends say it isn't. The facilities are out there but people don't use them. Why not? I think part of it is that Americans really don't value *education*. They tend to value *schooling* and we have to value education rather than schooling. We need to strengthen options for people to get this kind of education through the community colleges, to keep costs relatively low, and to encourage on-the-job training. Younger people may pay a lot more attention to education. If you look at a union like the UAW, you find the members under age 35 are a lot more concerned about personal development, education and training. Unions could use education as an organizing device. They could bargain to get resources allocated to education and training.

CLIFF JOHNSON: Ray, I am interested in your thoughts on trying to build upon successes in a decentralized employment training system, one where decisions about programmatic structures are made locally. It's pretty straightforward, for example, to replicate programs like Head Start or WIC or Job Corps. You can do that if you have the political will to do that. The next steps would seem somewhat straightforward. But in a whole range of other areas, particularly when the resources are now provided primarily through the JTPA system, it's not as clear how you might try to build on those activities. What more do you think we need to do to replicate and build upon those successes? Is a stronger role by the Department of Labor in technical assistance enough? Do we need new incentives to do certain things? Do you somehow try to decide at a national level on a list of things that are successful and then put out some dollars as incentives to states

that are willing to take up those programs and monitor them?

RAY MARSHALL: It really isn't a question of centralization or decentralization. Some things have to be centralized, but we should minimize that part, and let local areas go as far as they can within the framework of national policy.

Let local areas go as far as they can within the framework of national policy.

The states can and should have important roles in the employment and training system. I haven't always believed that. When I first got into this business in the 1950s and 60s, I thought the states were the last entities on earth you wanted to trust with anything. That had been my experience. We used to say that the money was in Washington, the problems were in the cities and the apathy was in the State Houses. Now, I think the states are doing some very good work. I am not as enthusiastic about Washington doing things as I was when I started. I am a little more enthusiastic about the states, although I believe that you still have to have federal safeguards and monitoring.

As to how you replicate the success stories--one way, of course, is simply to have better clearinghouse information about what's going on in local communities. Another way is to franchise programs. We have to turn fellows like Bob Taggart loose. Wherever we've got one of these programs that seems to be working, we should get a group of folks together and say, "Now, let's make you all available to anybody who wants to try this. You can build up the knowledge, the expertise and all the rest." I have found that to be terribly important, particularly in the use of technology. We need to have people to train others, so that they can learn from others' experience. The obvious in this business is often wrong, and people will do the obvious first. But other people will have already made those mistakes.

We used to say that the money was in Washington, the problems were in the cities and the apathy was in the State Houses. Now, I think the states are doing some very good work.

One use of technology is to magnify what you are already doing. I've got a working hypothesis that information technology will make good systems better and bad systems worse--because it magnifies what is already being done, rather than making qualitative changes in what is done well; that takes some learning. How do you go about it? Learn that each place is idiosyncratic; and if yours is the only place you know about, then you haven't learned this lesson. Somebody that's only had one other experience can't know that either. If you get people who have seen 250 situations, they are going to say, for example, "One thing that we learned is that you have to work it out yourself," or, "Now, here are some of

We need to experiment with some community-based organizations...I believe strongly in the outreach concept.

the things that can help you with that and here are the kinds of things to avoid in putting this program together." That is not centralized and its not decentralized--it *can* be national, but it's national in a functional sense. Such a program can be a network, like the Jobs Corps. I think we should have a Job Corps for teenage mothers. That would be very useful.

CLIFF JOHNSON: What we would do, in essence, is fund through national intermediaries which could go out and do that.

RAY MARSHALL: That's right. That would be flexible; we set some standards and say, "If you don't perform, you lose it"--and that's a lot better than telling the governor, especially if he or she is of your party, "You lose it." That's a hard thing politically for anybody to do and they are not going to like to do it. It would have to be a really egregious case before you would do it. We therefore need to experiment with some community-based organizations that have done a very good job reaching people nobody else could reach. I believe strongly in the outreach concept as a means of building bridges between the secondary and primary labor markets. In two cases where outreach was used, it worked extremely well--with the skilled trades and with minority women. They did an effective job in breaking down institutional barriers. But it took franchising to do it. We had Alexis Herman and a group of well-informed, hard-working, imaginative young women who were able to build the national network.

Endnotes

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The Possibilities of Employment Policy

Paul Osterman

Introduction

We want to raise and provide at least tentative answers to a series of fundamental questions concerning the organization, goals, and strategy of employment policy.

After a long hiatus, employment policy is once again prominent on the national agenda. Even the Reagan Administration, with its recent interest in programs for dislocated workers and welfare recipients, recognizes that an active employment policy can improve national welfare.

What makes the present circumstances especially promising is that the foundation for creative federal policy has been laid by local and state initiatives. Experiments such as the Massachusetts Employment and Training Program and the California Employment and Training Panel show that in the absence of national leadership over the past six years local officials have found ways to improve employment opportunities for their constituents.

The difficult question is how to best take advantage of the current opportunity. The record of employment policy and job training programs is mixed. We have had several other episodes of enthusiasm in the post war-period--such as the concern for structural unemployment which led to the Manpower Development and Training Act (MDTA) of 1962, the programs aimed at the disadvantaged which were associated with the War on Poverty, and the Public Service Employment component of CETA--and while some of these efforts worked well, others did not. It is important to learn from these experiences.

This document is not, therefore, primarily intended to discuss specific program models. Rather, we want to raise and provide at least tentative answers to a series of fundamental questions concerning the organization, goals, and strategy of employment policy. We reach the following broad conclusions:

1) The problems of low earnings and dislocation are sufficiently widespread to amply justify an employment and training system.

2) An active employment policy is also important in terms of a broader conception of the national interest. American workers tend to be undertrained relative to those in the nations with which we compete. This has

At the core of our argument is the view that we need to find a broader base for employment policy...make employment policy useful to a wider constituency...and... rationalize employment policy in terms of a broader conception of the national interest.

negative consequences for our productivity, adoption of new technologies, and transition to flexible work practices. The problem will worsen since new entrants increasingly will be drawn from relatively unskilled groups.

3) Narrow income targeted programs (and efforts aimed at particular groups such as dislocated workers or welfare recipients) should be replaced by programs which address the needs of broader groups. There are several reasons for this: the graduates of income-targeted programs aimed at poor people are stigmatized by the very fact of participation in such programs. Programs which aim at a very narrow group will not be sufficiently attractive to employers as a source of labor. Accordingly the programs will be limited in their effectiveness. As currently constituted, programs are seen as the special preserve of particular target of interest groups. They fail to address broad issues of national welfare and competitiveness and thus are limited in their appeal and inherently vulnerable.

4) Just as it is important to create programs which serve a broad base of clients, it is also important to create a stable employment and training infrastructure. The correct approach is to build a strong, locally-based system. Responsibility should not be dissipated via voucher programs or similar efforts. Nor should separate administrative structures be created for different programs.

5) To broaden the skill base of the labor force, serious consideration should be given to programs which provide an additional year of post-high school training in a setting which combines the workplace and schools.

6) Shocks to the labor market and problems of dislocation will grow worse, not better. To prevent difficulties, and to take the pressure off modestly effective after-the-fact responses, a variety of efforts should be undertaken to expand general training for employed workers.

In the material which follows we demonstrate that there is ample justification for a revived employment policy with respect to the needs of the traditional target groups: poor people and dislocated workers. We must not lose sight of these groups. However, at the core of our argument is the view that we need to find a broader base for employment policy. This implies finding ways to make employment policy useful to a wider constituency than it has been in the past and to rationalize employ-

ment policy in terms of a broader conception of the national interest. Unless this happens, employment policy will remain encapsulated and not relevant to the main events in the labor market. Because of this encapsulation, it will serve its traditional constituents less well than it could.

Substantial numbers of citizens are unable to earn a decent living in the labor market and need assistance in finding jobs and in boosting their productivity.

In principle, employment policy can be central to several national concerns. For example, the terms of the debate over *free trade* could be changed if costs of job loss were not so high and if job changing (without substantial loss of wages) were not so difficult. If the labor market were not so inhospitable to job-changers then opposition to trade would lessen. Other nations use employment policy to speak to these issues and there is no reason why we could not do so here. In another vein, the skill requirements of jobs are rising, yet demographic trends suggest that new labor force entrants will be disadvantaged in a number of respects. Again, this is a target of opportunity for employment policy and one which should appeal to a wide range of interests.

The challenge facing designers of employment policy is to find ways to broaden the focus of programs and incorporate both the traditional concerns and the many innovative human resource efforts which have grown up outside the narrow sphere of employment policy as presently conceived. An employment policy which is more relevant to actors in the labor market and has a rationale which speaks to the national interest will better meet the traditional goals and also be able to sustain itself as an important component both of national policy and local labor market transactions.

Why We Need an Employment Policy

There are three central reasons why the United States should invest in an expanded employment policy. The first two comprise the most traditional goal of employment policy: aiding people experiencing difficulty in the labor market. The third addresses broader issues, including the social and economic gains experienced by the economy as a whole from an active employment policy.

First, substantial numbers of citizens are unable to earn a decent living in the labor market and need assistance in finding jobs and in boosting their productivity. Aiding individuals at the bottom of the labor market has

There are social and economic benefits to a successful employment policy which extend beyond the clients who are directly affected.

been the rationale of the bulk of employment and training programs in the post-war period.

Second, the labor market does a poor job of finding new employment for experienced workers who lose their jobs. This problem will worsen as the economy is subject to heightened shocks from international competition and technological change and as the labor force ages. Recent concerns with programs for dislocated workers speak to this set of issues.

Third, there are social and economic benefits to a successful employment policy which extend beyond the *clients* who are directly affected. Some of these benefits are traditionally cited in the literature though rarely quantified. These include reduced crime and welfare dependence and the productivity gains which flow from a better-trained labor force. Other external benefits are less well known. We have already mentioned easing of tensions over trade and provision of a more skilled labor supply. In addition, expanded training and a more secure labor market ease the introduction of more flexible and productive work systems in the many companies which are attempting to reform their internal labor practices.

Persistent Low Earnings and Poverty

Although the modern history of employment policy began with the MDTA, a program aimed at what today would be termed *dislocated workers*, the emphasis was quickly shifted towards the economically disadvantaged and there it has remained.

How extensive is the problem of low earnings and to what extent is a labor market solution feasible? To answer this question we will focus on *persistent* low earnings (ignoring transitory difficulties, although many of these individuals also may need assistance) and ask what fraction of the labor force earned 50 percent or less of the median earnings for full-time workers in either three or five years out of a ten year period. For men, the figures are 13.6 percent and 8.3 percent of the male labor force for three and five years out of ten respectively. For women, 27 percent of household heads and 29 percent of wives fell below the standard for five out of ten years.[1] It is thus apparent that persistent low earnings are a substantial problem.

A more difficult question is whether a labor market solution is appropriate or possible. The question arises

because of the growing attention recently being paid to family difficulties (e.g. early childbearing and single parent families), to disabilities related to failure to complete high school, to drugs, and to other behavioral problems.

Cited so starkly, the recent discourse seems to take on a distinct *blame the victim* aspect. One must be alert to this danger while at the same time acknowledging that the social problems alluded to above are real. Nonetheless, the fact remains that for substantial numbers of people access to good jobs would go a long way towards relieving other difficulties. Thus the current trend toward looking for non-labor market *causes* of low earnings should be viewed skeptically.

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Supporting this point of view is the fact that in the foregoing data on persistent low earnings only labor force participants are included. People who cannot or choose not to work or to look for work are not counted. Another angle is provided by examining the composition of the non-elderly household-head poverty population. A recent analysis of the Current Population Survey showed that only 38.3 percent of the group were not candidates for labor market intervention in that they were either household heads with young children, students, or disabled.[2] The remainder were, in principle, able to hold jobs which would lift them out of poverty and are clear candidates for labor market interventions.

In summary, the traditional constituency of employment programs--the economically disadvantaged--remain of serious concern. Any active employment policy must find ways to come to their aid. To make this point, however, is not to affirm that traditional programs have worked well or that narrowly targeting resources on poor people is a good strategy. These questions remain to be considered.

Dislocation and Market Adjustment

The American labor market has an enviable job-creation record. Over the period 1971-86 the economy averaged over two million new jobs a year. Why, then, should dislocation and job loss be a problem? The answer is that average growth masks increasing variation. If we look at measures of the dispersion of employment, across regions or industries, those measures increased over the period.[3] Phrased differently, while the net number of jobs has grown, this is composed of two underlying trends: even sharper gross job-gain and

increased gross job-loss. The problem is that many of the people who are losing their jobs are not gaining the new ones and thus increasing dislocation co-exists with overall job gain.

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In the Current Population Survey of January 1984, respondents were asked if at any time from 1979 through the time of the survey they had lost their job due to either a plant closing, slack work, or the abolition of their position or shift.[4] If the answer was affirmative then these people were asked a series of questions about the character of the job they had lost and their experiences during the period from the time of that job loss until the survey date. (The Census Bureau conducted a more recent survey in 1986 with similar questions; the results differed little from those reported here).

When an individual loses his or her job due to a plant closing or a layoff what are the chances of becoming reemployed? A remarkably large percentage of people who lose their job fail to find a new one. For prime-age men (26-55) who had lost their job more than one year prior to the survey (and had lots of time to find new work)--only 75 percent were working. The unemployment rate for this group was 19.9 percent (the unemployment rate is calculated by dividing the number unemployed by the sum of those men unemployed and those men working). For prime-age women only 63.5 percent are working. For both groups the unemployment rates are understatements since many of those out of the labor force are presumably job seekers who have become discouraged and stopped looking. To provide a basis for comparison it is important to note that data from the same survey (the January 1984, Current Population Survey) show that for the same age group of men who had not experienced a layoff the unemployment rate was 3.3 percent (for women of the same age-group who had not experienced a layoff the unemployment rate was 4.7 percent).

In addition, when we examine the situation of those who *found* jobs, 45 percent of the men and 47 percent of the women took pay cuts of ten percent or more compared to their previous job. The data also show that while the fraction experiencing earnings decline is slightly reduced for those who were laid off more than a year

ago the reduction is marginal and the basic pattern remains. This implies that for most job-losers there is little catch-up effect and that the losers are most probably on a permanently lower earnings trajectory. In effect they have been knocked down several steps and will remain behind.

What these results suggest (and what more sophisticated statistical analysis confirms)[5] is that the labor market does a poor job of reabsorbing mature workers who lose their employment. This is in sharp contrast to the market's success in finding employment for the large numbers of young people and women who entered throughout the post-war period. The cost to the laid-off employees is substantial and the social cost, in terms of transfer payments, social disorganization, and community disintegration, can be high.

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It is important to understand that the currently low unemployment rate does not imply that these problems are behind us. First, the fraction of the unemployed experiencing long-term unemployment has increased. In 1978 the overall unemployment rate was 6.1 percent and in 1987 it was 6.2 percent. However, in 1978, 22.8 percent of the unemployed had been jobless for 15 weeks or more while in 1987 the figure was 26.7 percent. Even if we limit the sample to adults, the same results hold. Secondly, flat real wages and low quality jobs take much of the glow out of the current state of the economy. Finally, for the reasons described below, dislocation will continue to be a serious problem.

Dislocation Will Increase

The foregoing results are disturbing--but in fact the situation may even worsen, not so much because of outright job loss but because the rate at which jobs are redistributed will increase. That is, some firms and industries will gain employment while others will lose jobs. This would pose no problems if the labor market did a good job of finding new employment for experienced dislocated workers, but we have just seen that there are major problems in this regard.

The shocks to the labor market will increase in part because of the increased openness of the economy to international competition and in part because a major technological transformation--driven by micro-electronics--is impacting the labor market.

We are moving into an environment in which product market and technological conditions will increase the frequency of job loss...and in which the labor force is growing increasingly ill-equipped to handle the rigors of changing employment.

Compounding the problem caused by job redistribution is the changing character of the labor force. Demographic developments will reduce the number of new entrants, both youth and adult women, coming into the market. The average age of the labor force will rise and as the *baby boom* generation moves through middle age a bulge will develop in that range. For example, although the overall labor force is projected to increase by only 22 percent between 1980 and 1995, growth in the male age group of 35 to 54 years will be 82 percent and growth in this female age group will be 61 percent.

Workers of this age group are historically considerably less flexible than new entrants. Labor market institutions which, as we have seen, are not well-equipped to induce movement and flexibility, will have to cope with a less flexible labor force combined with the more difficult demand environment which we have described.

An additional point concerning the impact of the new demographics is that it will become more difficult to use attrition and retirement as adjustment mechanisms. Currently many firms are responding to the pressures we have described by offering voluntary early retirement programs to reduce the workforce. In other instances, the impact of new technology has been cushioned by the fortuitous attrition resulting from a workforce near retirement. These options will diminish as the bulk of the workforce becomes middle-aged, and the absence of these *gentle* adjustment mechanisms will create considerable difficulty.

In short, then, we are moving into an environment in which product market and technological conditions will increase the frequency of job loss, even in the face of overall employment growth, and in which the labor force is growing increasingly ill-equipped to handle the rigors of changing employment. Compounding the problem are the difficulties our labor market institutions have in finding new employment for experienced adult workers.[6] For these reasons the development of an effective employment policy seems essential.

Employment Policy and Competitiveness

Thus far we have emphasized the needs of individuals. There are, however, other reasons why an active employment policy is desirable. Many analysts have commented on the social consequences of unemployment

and poverty and this point, while valid and powerful, needs little additional elaboration. Instead we will point out what the economy as a whole stands to gain.

We already have mentioned that while the number of new entrants in the next two decades will fall, hence easing some pressures on the labor market, these employees increasingly will come from disadvantaged backgrounds. Contrary to conventional wisdom, most new jobs will require higher, not lower skills, and unless the training of these new entrants is improved, significant bottlenecks may emerge. Dramatic evidence of this point is provided by accounts of firms which advertise openings and are unable to find enough young people who can pass simple entrance tests. In Boston, there has been a full employment economy in which the business community has been active in supporting an employment and training system; this amounts to evidence that such a system can serve a general economic interest.

America's ability to maintain its economic standing in the face of world-wide competition requires rapid and successful adoption of new technologies. New technologies...alter and increase the skill level required of blue collar workers.

An additional issue concerns employment policies within individual firms, especially the introduction of new work systems. America's ability to maintain its economic standing in the face of world-wide competition requires rapid and successful adoption of new technologies. New technologies, especially microelectronics, have two important characteristics in this regard. First, they alter and increase the skill level required of blue collar workers by placing a premium upon abstract reasoning and computer-based skills. Second, they require workers to undertake broader tasks than in the past, (i.e. they require more flexible internal deployment of labor than is often possible under existing work rules).

There is good reason to be concerned about these requirements. Despite the widespread belief that private sector training is so extensive that it rivals the formal education system, available evidence suggests that employers underprovide training to blue collar workers. According to a recent Conference Board study, only 18 percent of manufacturing firms provided non-exempt workers with training programs--compared to the 33 percent who provided such programs for managerial employees and the 28 percent who offered programs to sales and marketing workers.[7] Another survey, by the Bureau of National Affairs, provided similar but more startling results. Fully 60 percent of firms surveyed provided courses to managers, 50 percent to professional and technical workers, yet only 18 percent to nonexempt employees.[8] Additional evidence on this point comes from a content analysis of training courses offered to firms by

The modest amount of training provided to blue collar employees contrasts sharply with the level provided by our major industrial competitors, such as Japan and Germany.

outside vendors. Only 14 percent of the more than 1500 courses surveyed claimed to serve other than clerical or managerial employees.[9]

In both surveys, small firms provided much less training than large ones. This is a common observation and is troubling because there is good evidence that small firms are a source of disproportionate job creation and technical innovation. Yet because these firms lack extensive internal promotion systems and career paths they are unable to train and, often, to retain the skilled labor they need.

The modest amount of training provided to blue collar employees contrasts sharply with the level provided by our major industrial competitors, such as Japan and Germany. In Germany, as we will describe in detail below, more than 70 percent of each youth cohort spend three years in intensive vocational training prior to formal labor market entry. In Japan the system is different--most training is provided by firms after school-leaving--but the result is the same: a far higher level of training, particularly for blue collar workers, than characterizes American practices.

A striking illustration of this point comes from comparing the training practices of Japanese-owned plants *located in the United States and employing a US labor force* with comparable American-owned companies. Two observers recently noted:[10]

"Training is another factor which Japanese companies in the US emphasize greatly. Training provided to workers is an intensive and long-lasting process....in several forms: preliminary vocational training, orientation training, introduction to Japanese *mother* plants, and on-the-job and off-the-job training....Since the entire production system depends so heavily on human resource effectiveness, unlike the conventional American production system, Japanese companies need to be extraordinarily sensitive to personality, preparedness, attitude, and participation of workers."

One might argue that these results are not as bad as they seem, for several reasons. First, much training is informal on-the-job and thus is not captured in these data. Secondly, one might believe that the nature of blue collar work requires less training. Finally, we lack an objective standard against which to judge the *proper* amount of training, and some indicators such as skill

shortages in specific occupations can be misleading since they are due to other factors (such as wages in those occupations which are too low to attract labor). These arguments, however, cannot explain why other nations are more active. Furthermore, the nature of technical change is pushing skill requirements in the direction of more extensive and more general skills. However, as skills become more general (i.e., more useful in firms other than the one of current employment) firms will be even less likely to provide training since they fear that workers will quit and take with them the firm's investment.

Expanding training opportunities for employed workers, making workers more employable both elsewhere in their current firm and in other firms...sets the stage for more flexible and more productive employment systems.

The second requirement of new technology is that employees be willing to enlarge their jobs and to accept more flexible work rules. What often stands in the way of this is fear of the extremely adverse consequences of job loss, a fear which is quite justified, as we documented above. The work rules which appear inefficient and obsolete are often viewed by the labor force as a protection against arbitrary management behavior and as a way of maintaining employment levels or, at the least, determining who gets laid off if it comes to that. If these rules are to be altered, short of aggressive management attacks on unions and on working conditions, then a strong employment and training system has a role to play. Expanding training opportunities for employed workers, making workers more employable both elsewhere in their current firm and in other firms in the labor market, as well as easing the consequences of job loss (through training or through the labor exchange), sets the stage for more flexible and more productive employment systems.

The Employment and Training System

With the preceding discussion in mind we can formulate three broad goals for an effective employment and training system. These are to:

1) *Enhance prospects of intra-firm mobility for the incumbent workforce.* This is an important objective because as the labor force becomes more mobile and flexible it is better able to adapt to changing conditions without layoffs.

2) *Improve the efficiency with which inter-firm mobility occurs.* It is not reasonable to expect that firms will never need to adjust the size of their labor force. We have seen that the American labor market does a poor

job of moving experienced workers from one firm to another--yet without sufficiently hopeful prospects for mobility workers will remain attached to traditional forms of job protection.

By providing the labor force with more general skills...an effective employment policy can improve the possibilities facing the economy.

3) *Assist individuals in persistent labor market difficulty.* For our purposes, this assistance should take the form of employment and training efforts although it is clear that other interventions, such as basic skills education, are also often necessary.

It is important to observe what these goals say about the possibilities of employment policy. Employment policy cannot create jobs except perhaps through direct job creation efforts such as Public Service Employment. Leaving direct job creation aside, the most direct outcome of employment policy therefore is to redistribute jobs among the labor force or, to put it more positively, to assure that everyone has a fair chance of getting employed. Yet while this is surely one of the main objectives of employment policy, more is possible.

By providing the labor force with more general skills, thus helping to enhance both internal and external mobility, an effective employment policy can improve the possibilities facing the economy. Such a policy can help make firms more productive in several ways. A more broadly skilled labor force is better able to take advantage of new technologies and, indeed, may help induce firms to search out such opportunities. In addition, if employees feel better protected from the possibilities and consequences of job loss (and broader training and more effective job matching will help achieve this) then they will provide greater internal flexibility to firms and thus increase productivity. Furthermore, as we have already indicated, there may be other benefits. For example, the tension around trade policy may ease as the adverse consequences of job loss are reduced.

The foregoing may sound overly optimistic. A critic could well remark that these ideas may be correct in principle but in practice they are likely to have, at best, small effects. This is not an unreasonable criticism, but consider substituting in the previous discussion the phrase *educational system* for employment and training system. Few would deny that the strength of the economy rests in important measure upon how effectively the educational system prepares youth for work. Our point here is that there is a similar gain to be made by helping assure that adults have opportunities to gain new skills and the possibilities of mobility in the labor mar-

ket. In order to achieve this, however, the employment and training system should evolve from its role as an emergency stop-gap system of last resort for the worst off into a more extensive and integral part of the labor market.

This latter point bears emphasizing and, indeed, flows from the previous discussion. *The employment and training system should not be limited to either those at the very bottom of the labor market (the disadvantaged) or to those in emergency situations (victims of plant closings). The system should assist these people, but also should have a broader focus. To do otherwise truncates the possibilities of the system, limits the range of issues it can address and the political support it can garner, and, as we demonstrate below, serves the traditional target groups less effectively than it otherwise could.*

The employment and training system should not be limited to either those at the very bottom of the labor market (the disadvantaged) or those in emergency situations.

The Performance of the Current System

There is a vast literature evaluating employment and training programs, a literature which varies in its comprehensiveness and sophistication. The results of all these evaluations are not, of course, identical. However, taken as a whole a clear message does come through. Employment and training programs raise a participant's annual earned income by somewhere between $500 and $1,500 per year.[11]

A similar conclusion emerges from studies of employment subsidies such as the Targeted Jobs Tax Credit.[12] This gain is (given typical program costs) large enough to justify the programs on a cost-benefit basis and, for someone whose annual income might be at the poverty line, the extra funds are important. However, these results raise questions about whether the programs achieve their central goal. A person entering a program most likely has experienced a sporadic work history and employment in a low wage and dead-end job. Program participation (on average)[13] does not change these facts. The modest earnings gains generally are due to longer hours, not higher wages, and in any case do not suggest that in any fundamental way the person's life circumstances have changed. The participants in these programs remain at the bottom of income distribution and there is no evidence that they have been placed upon a new trajectory with respect to lifetime earnings.

Most trainees spend less than half a year in employment programs–so why should we expect that much can be achieved in this period?

The bottom line with respect to both the training programs and the TJTC are therefore decidedly mixed. Some readers may feel that the standard against which the previous paragraphs judge programs may seem unduly harsh. There is some justice to this complaint. After all, the programs do raise earnings somewhat and they may provide other benefits such as increased literacy and higher self-esteem. These results are valuable. Furthermore, many people would quite reasonably argue that given the limited resources expended, little more could be expected. For example, in New York City in 1986 an average of $2,984 was spent per participant in adult JTPA training programs and the typical youth program expended less than half that amount, while by contrast the public schools spent on average $4,587 per pupil.[14] Put differently, most trainees spend less than half a year in employment programs--so why should we expect that much can be achieved in this period?

While this point is reasonable--and it is certainly the case that better results would flow from increased resources--it does not follow that expanding programs without other changes would produce results that were different in kind, or by an order of magnitude, from past efforts. Several pieces of evidence point in this direction. First, those training programs which do expend substantially more resources deliver similar results. The most carefully evaluated program which expends substantial resources is the Job Corp, a year-long residential job-training and remedial education program for youth which spent (in 1980) more than $6,800 per trainee. The program received one of the most careful evaluations in the literature and it was found to be fully justified in cost/benefit terms, once reduced crime and welfare payments were considered. Nonetheless, the average earnings gain was only $600 per year and was essentially double that if only program completers are considered.[15] These gains are consistent with our argument.

Another expensive program for which we have good evaluation results is Supported Work. This program provided work experience and some remediation to four groups--youth, drug addicts, individuals involved in the criminal justice system, and welfare mothers--and the only group for which there were positive results were welfare mothers, and those results were within the range we have described.[16]

It is important to emphasize that we are not arguing that nothing has been accomplished by these programs nor are we saying that additional expenditures on

them are wasted. To the contrary, there have been measurable gains and expanded programs would lead to greater benefits. Nonetheless, the central point remains valid. The ultimate purpose of these programs is to alter the existing situation in which there is a group of people who are limited to a class of jobs with earnings near the poverty line and without reasonable chances for lifetime earnings growth. There is little credible evidence that the employment and training programs transform this state of affairs.

The lessons from the best practice literature are that early notification of layoffs or closings improves the chances of effective interventions.

Finally, it is important to mention reemployment programs for dislocated workers. These efforts have been funded from a variety of sources, such as the Trade Adjustment Reassistance Act (which in fact delivered mostly transfer payments and little training), several Labor Department Demonstration programs, and--most importantly--Title III of the Job Training Partnership Act. Under Title III, individual states are funded to assist people who are victims of plant closings and large scale layoffs. Job loss is the eligibility criteria and, in contrast to other JTPA and comparable efforts, income eligibility requirements are not imposed. As a result the typical participant is far more likely to be a middle-aged white male with a high school degree than is the case in other programs.[17] The program is relatively small: the fiscal year 1984 budget was $223 million.

The few evaluations of these efforts take one of two forms. Most are largely narrative with some pre- and post-program data and are most useful for developing a sense of *best practices* as judged by experienced observers. A very limited number contain believable control or comparison groups and thus can be credibly used to judge program impact in the sense that we used the term in the earlier discussion of training programs. The lessons from the *best practice* literature are that early notification of layoffs or closings improves the chances of effective interventions, on-site worker assistance centers are frequently better than programs which are distant from the workplace, counseling and placement assistance are as important (if not more so) than training, and cooperative efforts between labor and management work best.[18] In the few rigorous evaluations the lessons are mixed: a study of a program in Buffalo found that the program increased average weekly earnings after layoff by $115 for participants vs. non-participants, while studies in Texas and Delaware found little impact.[19]

These dislocated workers programs are, in general, too small and too oriented towards an immediate crisis

(as compared to on-going efforts) to serve as models for a full-fledged employment policy. However, as we will see, they represent an important opening towards such an effort.

Employers complain that the Service fails to screen workers and...sends them large numbers of unqualified applicants...job applicants claim that the good jobs are rarely listed with the Service and when listed are not filled with Service referrals.

The second leg of the US employment system is the United States Employment Service. Logic would suggest that this agency, at once in touch with firms and job seekers, should play a key role. Yet despite this promise, the United States Employment Service has long been regarded as unable to fill any but menial jobs. It is hard to exaggerate the extent to which employers complain that the Service fails to screen workers and, whenever they list a vacancy, sends them large numbers of unqualified applicants. For their part, job applicants claim that good jobs are rarely listed with the Service and when listed are not filled with Service referrals. Statistical evaluations confirm these impressions. The Stanford Research Institute tracked the experience of Employment Service applicants who did and did not receive referrals in 1980 and 1981. If the ES were effective, we would naturally expect to see higher subsequent earnings for those job seekers who did receive referrals compared to those who did not. In fact, for men there was no statistically significant difference in earnings in the six month follow up period for the two groups while for women the results were much like those discussed earlier for training programs: the payoff was statistically significant but only on the order of $300 for six months (or a $600 difference in annual earnings).[20]

Even though training programs have had their failings, there is no reason in principle why the public employment exchange should fail. Just as firms conduct their own training so they also employ private employment exchanges to recruit, screen, and refer applicants. Companies pay a fee for this service and, on first glance, a public subsidy should be welcome. Some observers of the United States Employment Service explain its failure by pointing to the burden placed on the system by other administrative tasks which have been delegated to it over the years[21] but in fact the ES has been ineffective for many decades.[22] Instead, we must conclude that the ES suffers from the same fundamental illness which plagues the training system: the system was not conceived and designed to provide genuine service to the private economy. Instead it has been largely tied to the transfer system. For many years it has been a mechanism to enforce the job-search requirement for the receipt of unemployment insurance benefits: recipients had to satisfy officers of the ES that they were looking for work and in practice that meant ritualistically telephoning ES

referrals. This gave the system its basic character from which it has not recovered and in recent years it also has been used to enforce work requirements for receipt of welfare payments.

The above arguments suggest that much of the poor performance of the employment and training system results either from explicit targeting to the bottom of the labor market (as in training progams) or implicit targeting there, as in the case of the Employment Service. This fact points to another characteristic of the federal system: its uncertainty whether its functions are an element of labor market policy or a part of the larger transfer (welfare) system. On its face, the system is a labor market program aimed at providing skills and finding jobs for its clients. However, the system consistently has been used as an adjunct of the welfare system. When stipends for training were sufficiently attractive that people enrolled in training simply to receive the cash, the training programs were literally welfare and transfer programs. (This is not to say that the majority of enrollees signed up for this reason but the problem was sufficiently widespread so that the character of the programs was affected.) Although this is no longer possible for adults it continues, in effect, in the summer youth jobs program which too frequently is a transfer and hot weather *fire insurance* effort.

Much of the poor performance of the employment and training system results either from explicit targeting to the bottom of the labor market (as in training progams) or implicit targeting there, as in the case of the Employment Service.

The connection of employment and training to the welfare system extends beyond direct transfer. Growing public concern about the legitimacy of welfare has meant that participation in training is often made a requirement for the receipt of transfer payments. This trend began in the 1960s with the Work Incentive Program (WIN) and continues under that rubric today and in various *workfare* programs passed at the state level. Commendable as this may be from the perspective of the welfare system and even in terms of the mission of many job training programs (which, after all, are intended to help people escape poverty), these efforts reinforce the view that job training and welfare are parts of the same overall system for dealing with a particular segment of the population. Under these circumstances it is hard to argue with the view that training is really an element of the welfare system and, as such, we should not be surprised that employers commonly view the system with suspicion. The serious extent to which stigmatization has been created by income stratification and association of training with welfare was demonstrated by a recent experiment in which two randomly selected groups were sent to look for work. The first group identified themselves as clients of the employment and

training system and offered employers a Targeted Jobs Tax Credit voucher good for partial subsidy of their wage. The second group made no such representation and carried with them no subsidy. The groups were alike in all other respects and, remarkably, the hiring rate of the second group was substantially above the first. The connection with the employment and training system was so negative that it outweighed a wage subsidy![23]

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If a narrowly targeted training program defeats its own purpose, via stigmatization, then it is important to broaden the base of the employment and training system. There are a series of more positive reasons for doing so, but the fact that maintaining the present structure is self-defeating is surely a persuasive point.

Structuring an Effective Employment Policy

In thinking through the shape of an effective employment policy, two major issues emerge: the institutional structure in which that policy is embedded and the programmatic content of the policy. It is our strong view that it is more important to focus upon the creation of a credible system than upon specific programmatic interventions.

There are two reasons for this. The first is the relatively obvious one that the needs of individuals and firms are too varied to admit a single category of intervention. The issue then is whether a system can be put into place which is flexible enough to shape programs to particular circumstances.

The second reason it is important to emphasize the development of a strong system is more subtle, but probably more important. We have argued that a central function of employment and training programs is to provide the labor force with sufficient security that on-the-job flexibility is forthcoming. Specific programs are too ephemeral, they lack *presence*, and thus are unlikely to accomplish this objective.

Finally, there are a series of tasks appropriate to an employment and training system which can be accomplished only by an on-going administrative entity. Such an agency should work with local economic development officials to use training as a tool for job creation. When faced with the threat of a plant closing or large scale

layoff it should bring training, mediation, and technical assistance to bear in an effort to ward off the problem or to mitigate its effects. It should be able to work with other agencies, such as the school system, to address the problems of youth and the needs of firms in the community. These and other tasks can be achieved only through a strong on-going system.

In short, for the reasons laid out above, what is required is the visible, concrete existence of an agency with the appropriate responsibilities and which can be held accountable for meeting its objectives. This agency needs to have an active and vigorous presence at the local level and have at its disposal a variety of programmatic tools to meet different needs. Over time, as this system proves itself and gains credibility, it can meet the broad goals we have established.

What is required is...an agency with the appropriate responsibilities and which can be held accountable for meeting its objectives.

There are, it is true, current discussions of programs (e.g., Individual Training Accounts) which bypass this question by simply making funds available to people to purchase their own training. In addition to being poorly targeted and thus wasteful (i.e., a substantial fraction of the funds would go to people who do not need them), the idea raises serious issues of quality control (consider scandals regarding proprietary schools). Such a voucher system also provides no method for maintaining any ongoing responsibility for the individual, either while they are *spending* their voucher or after the training is complete. Without an organizational structure with a goal and accountability as well as with specific program components (e.g., counseling and placement), it is hard to believe that a program can deliver quality results.

Our discussion of the shape of an effective system will focus upon three topics: eligibility, the structure of the system, and staffing the system. After discussing these institutional issues we will then describe specific programmatic interventions which the system might deliver.

Who Should Be Eligible?

We already have described the consequences of an employment and training system which is means-tested. It becomes perceived as part of the welfare system and mere participation has the effect of stigmatizing clients. Furthermore, firms--interested in recruiting people with a broad range of characteristics--will avoid the system or treat it as a charity. Finally, to achieve the possible

broader goals of an employment and training system requires that the system be able to serve a wider range of the population.

What about poor people?...The graduates of such training would not be stigmatized ...Poor people would blend in and at the next step in the system be treated no differently than anyone else.

It is clear, therefore, that a public employment policy which seeks to play an important role in labor market issues cannot be limited to any one income group. As a practical matter, however, this does not mean universal coverage. The training system for high-level personnel appears to perform well and there is no reason to expect that any new policy can or should supplant it. Indeed, the public employment policies of even the most activist European nations still do not extend into the top third or so of the occupational distribution. Our conclusion is that in the US, means tested eligibility should be eliminated and we should expect that the system will touch upon non-college level occupations and perhaps a bit further. Even this more modest objective will greatly extend the system and make it a far more attractive instrument for the private economy.

What about poor people? Is it not a perverse set of priorities to broaden the system, given the substantial needs at the bottom of the labor market? The answer goes to results. The current system *belongs* to poor people but does not (as we have shown) serve them well. A different system may have a broader constituency but if the system as a whole is more effective then it will serve poor people better. The basic idea is for a set of institutions to provide training for a wide range of people and the governmental (regulatory) authorities assure that poor people are included. The *graduates* of such training would not be stigmatized, due to the broad client base. Poor people would blend in and at the next step in the system be treated no differently than anyone else.

There are practical objections to this scenario, the most serious of which is that many disadvantaged labor force participants require remedial services, especially basic education, which *mainstream* institutions either may be loath to offer or will provide in a set of tracks which have the effect of re-stratifying the system. It is here that there remains a continuing role for the range of community-based institutions which in the past have served as the backbone of the old employment and training system. It would be undesirable for these institutions to retain their training and placement function since by their very nature they signal employers about the nature of their clients. However, they may effectively

serve as preparatory institutions for the broader employment and training system which we envision.

What Institutions Do We Need?

What institutional form should the employment and training system take? This question is particularly important given that we have emphasized the importance of the system *per se*, i.e., that an active, visible administrative structure must exist in order to provide credibility to the policy. To repeat: we will discuss particular programmatic ideas and models below and many readers will find it easier to become engaged in these than in a plea for what seems to be mere bureaucratic reform. Nonetheless, without the stable, visible, ongoing administrative agency, specific programs will come and go and make little impact either upon the broad themes we have raised or large numbers of individuals.

Labor markets are local and workers as well as managers must see in their community an institution capable of addressing their needs.

In thinking through how to create a sound structure, one must choose between inventing new institutions and drawing upon those already available. The former course may seem cleaner and has the advantage of giving greater freedom to the planners' imagination. However, this tactic forfeits the opportunity to gain the political support of existing and well-connected institutions. Furthermore, new institutional inventions rarely perform up to expectations.

Accepting this view that we should draw upon already existing institutions, we still must ask where the system should be centered. In our view, the heart of the system must be at the level of local labor markets. With very few exceptions, labor markets are local and workers as well as managers must see in their community an institution capable of addressing their needs. There are good arguments for loose linkages among these agencies--perhaps coordinated by state governments--and obviously federal money will bring with it a degree of federal oversight. Nonetheless, the bulk of the energy should go into building up the strong local presence of the system.

If we examine the existing landscape there are three institutions which seem appropriate players, but each currently suffers from significant disabilities. Both logic and availability suggest that the Employment Service should play an important role. The Employment Service is ubiquitous and its placement and labor market information roles are clearly at the core of any policy. In Sweden, the Employment Service runs the active labor-

It seems clear that community colleges have become a substantial element of the American employment and training system.

market policy; in the United States over the years there have been calls to create a comparable role for the ES. Indeed, in 1966 George Shultz headed a task force which suggested that the Employment Service become a *one-stop manpower services agency.*[24] The difficulty in America is not logic but performance. As we have seen, the reputation of the Employment Service is deservedly abysmal: it seems unable to perform its mission for even low level blue collar work. This raises serious questions concerning its capacity to play a constructive role in a program aimed at upper level blue collar and low to mid-level white collar employees. Clearly any effort to include the Employment Service in a new initiative must incorporate a wide-ranging reform of that institution.

Many would argue that the logical training providers are the community colleges. Among all the elements of the American employment and training system, these apparently perform best and have the great advantage of being potentially broad based and non-stigmatizing.[25] These institutions, which offer two year degree programs after high school, have experienced explosive growth in the past two decades and their character has changed considerably. Between 1960 and 1980, enrollment grew from 650,000 to four million. To put matters even more sharply, in 1960 they accounted for 16 percent of all higher education enrollments; by 1983 that figure had more than doubled and they claimed 54 percent of all freshmen first-time higher education enrollments.[26] Along with this growth came a substantial change in the mission of the community colleges: they shifted from institutions intended to help students transfer to four year colleges to essentially vocational training centers. While in 1965 vocational programs covered 13 percent of all community college enrollment, in 1984 the figure was 66 percent.[27]

It seems clear that community colleges have become a substantial element of the American employment and training system. The question, of course, is whether they are any more effective than the other elements of that system. On the face of it, there is good reason for expecting that they might be. They deal with an older group of students than do the vocational schools; this in itself should generate better results since the enrollees are likely to be more mature and motivated. In addition, community colleges are more flexible and entrepreneurial than is the public high school system (each college tends to be administratively independent, at least with respect to curriculum, from the central state system and there are fewer of the bureaucratic impediments which prevent the public high schools from changing.) In fact,

community college administrators think of themselves as entrepreneurs. This attitude suggests that the vocational material in the regular curriculum will be more responsive to market needs. Finally, the contract or customized courses arranged with companies clearly are likely to have an immediate payoff.

Community colleges should be key training providers in an expanded employment and training system.

Given the growing importance of these community college institutions and the reasonable expectations of success, the amount and nature of the evaluation evidence is frustrating. There have been few evaluations--and those which do exist tend to be focused upon the wrong question for our purposes (i.e., rather than asking whether attendance in community colleges pays off relative to entering the job market, they instead ask how the benefits of a community college degree compare to that of a college degree). In addition it seems reasonable to think that community colleges contain two broad tracks: highly specific vocational programs and more general degree programs. Evaluations should, but do not, distinguish between these.

Nonetheless, on the basis of what we know, it seems reasonable that the community colleges should be key training providers in an expanded employment and training system. At the same time we must also recognize that there is considerable state-to-state variation in quality. It is also crucially important that a separation be made between the training provider and the training funder. Otherwise the system will fall into the trap of vocational education: increasingly removed from labor market needs and committed to obsolete programs and equipment. For these reasons while the community colleges presumably might be training providers, they still must be subject to another agency's oversight.

Given our focus on local labor markets, the Private Industry Councils (PICs), initiated under CETA but greatly strengthened by the JTPA, would seem appropriate to play a central role. What gives the PICs a potentially distinctive mission (in contrast to the Employment Service, which also has local offices) is that the PICs are tripartite, including representatives from government, business, and labor. A PIC ideally could organize a labor market around a set of objectives concerning employment security, placement, and training. The rub, again, is practical. The great majority of PICs contain third-level business representation, limited union participation, and far too many government officials. It is a rare PIC which has begun to conceive of its role, much less act upon it, in any but the most *pro forma* terms.

The best option, then, appears to be to strengthen PICs and to rely on the combination of a strong PIC and Service Delivery Agency.

The true administrative power for employment and training at the local level is the so-called Service Delivery Agency which administers the JTPA grant. Typically this agency is under mayoral control and is the successor to the former CETA administrative agency. The staff of this agency generally constitutes the most experienced group of employment and training professionals in an area. Most PICs depend upon this staff, and while there are exceptions, it would be naive to expect most PICs to develop substantial independent expertise.

The best option, then, appears to be to strengthen PICs and to rely on the combination of a strong PIC and Service Delivery Agency. This agency would develop (as is done now) financial agreements with training agencies, particularly community colleges, to provide services.

As noted above, the placement function of the Employment Service should be central, yet is currently unable to deliver quality services. None of the administrative reforms of the past two decades (internal to the ES system) have changed this fact. Therefore one major organizational change is warranted: placing local Employment Service offices directly under the control of the employment and training agency we have described. (This suggestion refers only to the job-matching function of the Employment Service. Other activities, such as labor market information, should remain centrally managed). JTPA, in fact, recognizes that the two institutions should work together and attempts to encourage this by requiring that the PIC approve the annual plans of local offices. However, as a practical matter this is *pro forma* since local office heads report to a central state ES agency which has discretion over the distribution of resources and over personnel decisions. The only way to improve the Employment Service and to integrate it into the Employment and Training System is to alter radically the power and reporting relationships.

The argument developed above about organizational structure does have one strong policy implication which is often overlooked. As new program ideas are developed, there is a strong temptation to write new legislation to authorize them, create new agencies to administer them, disperse the funds through a variety of entities, and so on. The net effect of this bureaucratic fragmentation is to undermine the existing system and make it much more difficult to create a credible employment policy. There are strong substantive reasons, which we have explained, to make every effort to channel new programs through a single local employment and training entity. It does not make sense to widen the eligibility of programs, and

avoid income targeting, unless the programs are channeled through a single agency. Employers and others will not perceive that the system serves a broad base and is a major actor in the labor market unless it is unified. Administrative unity is parallel to programmatic consolidation.

Because we are placing considerable weight upon the local PIC and SDA, these institutions should become more responsive to a broad range of community interests. As already noted, the potential advantage of the PIC is that it can function as a community labor market board, yet most PICs have failed to provide adequate representation for unions and community groups. The enduring impression that only business people are equipped to understand skill needs and training systems has been translated into an exclusionary system. It is true that the employment and training system in the past has been too isolated both from the core of the labor market and the training systems of private employers. Indeed, we have argued that much of the poor record of the system can be attributed to this isolation and consequent stigmatization. It is important, therefore, to build even stronger links to the private sector. This does not mean that only firms should play a role in the system's governance. It is important to find ways to broaden the representativeness of the system without simultaneously permitting it to become captive to client groups.

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The two major administrative reforms we are suggesting involve placing all programs under the control of a single agency (and therefore avoiding the current administrative fragmentation of programs for poor people, dislocated workers, and welfare recipients) and shifting control over the Employment Service. The minimal interpretation of the recommendations is that existing structures simply be greatly expanded, professionalized, and given new tools and resources.

However, what appears to be a difference in degree would become a difference in kind. Unlike in the current system, it would be a natural response under the set-up we envision for a firm to call our agency to seek help with a training issue, to recruit new workers, or to plan for a reduction in employment and for workers to turn to the agency for retraining or job placement assistance. Similarly, other local actors--for example, mayors and economic development officials--would regard the agency as a major player to be brought into a wide range of issues. Instead of being in an obscure bureaucratic backwater, the agency would be as visible and well-

financed, locally-based agency which provides services to a range of income groups and occupations--with control over the Employment Service, good ties to community colleges, and a range of programmatic tools--could become a visible and active presence in a way the employment and training system never has in the past. As such, it could help fulfill the mission which we have set for the employment and training system.

It also will be necessary to raise salaries, establish career development programs, and treat employment and training staff as well as most professional civil servants are treated.

How Should We Staff the System?

We have noted already that one characteristic of the remedial employment and training system is the tremendous institutional instability of service providers. Organizations come in and out of existence and there are no clear career lines for staff.[28] Since one of our major objectives is to create a visible and stable presence, it will be important to alter these past patterns. In part this can be accomplished by greater reliance upon more stable institutions, notably community colleges. It also will be necessary to raise salaries, establish career development programs, and in general treat employment and training staff as well as most professional civil servants are treated. This is not a striking or dramatic recommendation nor one likely to generate enthusiasm, but nonetheless it is an important component of system-building.

Programs for an Effective Employment Policy

As we have emphasized, the most important task is to build a credible system. If such a system were in place, its managers would find no shortage of workable programmatic ideas. In some respects the programs would seem little different from those currently in place while in other instances they would represent innovations. What would be most different would be the sum of the parts. Under the system, we envision a strong, well-funded professionalized local agency which would be able to deliver, and coordinate, a range of services. Ultimately this agency would become powerful enough to organize the local market in the sense of providing (directly or indirectly) a considerable amount of training and placement services and thus having a noticeable impact upon the flow of labor. It is foolish and undesirable to expect that the agency could in any sense manage or dominate labor market flows, but its presence would still significantly contribute toward meeting our objectives.

Training for Youth

What are examples of programs which such an agency could sponsor? Whatever programs are organized must share in common the ability to provide general skills and inter-firm mobility. Given this agenda, it is with youth that a revitalized training policy should begin. We have seen that adult employees who lose their jobs have considerable difficulty finding new employment. An important source of this problem lies in the highly firm-specific training which many employees, particularly blue collar workers, receive. In addition, youth unemployment is a problem particularly for minority groups. For both these reasons it is appropriate to re-think the training and entry process for young people.

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The obvious starting point for such an effort is the German apprenticeship program. In West Germany the so called *dual* system involves roughly 70 percent of a *cohort* in a formalized apprenticeship in which time is divided between public schooling and workplace training. At age 15, youth in two of the three educational tracks[29] search for apprenticeship slots. They then typically spend three years as an apprentice, during which time they work four days a week and spend one day in formal public school instruction on the *theoretical principals* of their chosen craft. The content of their on-the-job instruction is carried out according to a curriculum which is carefully defined by a government agency. Apprenticeships are available in approximately 400 fields which have been certified by the government. These fields range from traditional blue collar jobs to white collar occupations such as bank clerk or insurance salesperson.

This training system is the key to entry into the bulk of the German labor market. The responsibility for assuring that the apprenticeships in a local area meet appropriate quality standards falls with a business organization, the Chamber of Industry and Commerce (or, in the case of small firms, the Chamber of Handwork). These organizations, which typically have full-time staff assigned to these tasks, also administer an examination at the conclusion of the apprenticeship period. Upon passing these formal written and oral tests (which are uniform nationally), the person is granted the status of skilled worker.[30]

The best chances for adopting features of the German model lie in some combination of an additional apprenticeship year after high school for youth who do not continue to college and a less stringent partnership between business and high schools for enrolled youth.

There are two highly desirable aspects of this model. First, youth training is tightly integrated into the economic needs and calculus of firms. This facilitates better-quality training and a highly ordered and more efficient entry process. Second, because the training is thorough it provides employees with a genuine skill base which can form the foundation of a career. A third characteristic is the near universality which imbues the credential with credibility and insures that the system has a substantial impact upon the structure of the economy. Taken as a whole, the key lesson is that provision of high-quality general training provides the basis for a more adaptable labor force than that which characterizes the US.

The characteristics of the model which are the hardest for most American observers to swallow are bureaucratic rigidity (with a central agency defining acceptable occupations and prescribing a uniform curriculum) and too much firm-specific training. In fact, however, these are not the biggest problems facing any attempt at transplantation. One key difficulty is the early tracking implicit in the system. It is unlikely that American colleges will accept high school degrees in which a large fraction of the final three years is spent outside school in firms. This means that a literal adoption of the system implies an early stratification of youth in college and non-college streams (as in fact is done in Germany). Such tracking is not acceptable in the American context.

A second problem flows from the decentralized character of American education. Because of local control a national program is not possible. However, in a geographically mobile labor market, educational credentials need to have some commonly understood content or else they are not transportable. It is true that the quality and even content of a high school degree today is far from uniform, but the introduction of such a substantial deviation from accepted practice may pose problems.

These difficulties suggest that the best chances for adopting features of the German model lie in some combination of an additional apprenticeship year after high school for youth who do not continue to college and a less stringent partnership between business and high schools for enrolled youth. The Swedes, for example, are considering adding an additional vocational year for high school graduates who will use that period for apprenticeships in firms. Another example is provided by Great Britain, where all youth upon leaving

school are entitled to subsidized employment in a firm. The placement is intended to provide training via rotation through a variety of occupations and in some versions of the scheme the equivalent of one day a week over the course of a year is spent in more formal education. Although many of the specific activities involved in this effort appear to be simply stop-gaps in response to high unemployment, when viewed from another angle they do represent an effort fundamentally to alter the training and entry process.

Closer to home, several communities have experimented with new approaches. Perhaps the best known example is the Boston Compact, a program under which businesses in Boston guarantee jobs to all youth who graduate from high school. As part of this effort many firms work with schools throughout the year providing a variety of types of assistance as well as summer job placements. Most experts regard this as the most successful example of so-called business/school partnerships and it has had a substantial impact upon reducing youth unemployment among high school graduates. However it is too early to judge the program's impact upon subsequent career mobility.

Given that such a system holds promise there remain a series of very difficult problems in making it work. The respective roles of firms, unions, and schools in the design and management of the system is one example. Among the more difficult issues is the proper role of the vocational education system. In contrast to the German model and that of other European nations, we have opted for school-based vocational education. However this approach runs into a number of difficulties such as keeping the system abreast of technical change in the workplace and maintaining technical skills in the staff. Secondly, the large public fixed investments in plant and equipment lead to considerable inertia in the face of changing labor market needs. Thirdly, the program as constituted tends (like the remedial employment and training system) to be limited to the least able individuals and to stigmatize participants. It seems more fruitful to improve the entry process for a broader cross-section of youth. The evaluation record supports the view that the system does not perform up to expectations.[31] All this suggests that a revived youth training effort should not be managed by the vocational education establishment as currently structured, yet we cannot ignore these resources and it will be a challenge to determine their proper role.

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Training for Employed Adults

Training for jobs which do not yet exist implies sharing information with the labor force on future plans for technological innovations.

Enhancing future mobility prospects (as well as having some impact upon youth unemployment) by building a more mature entry process does seem promising. However, the major effort is to find ways to secure adult employment. This will require enhanced training (and, when necessary, placement) efforts for the incumbent workforce.

Providing general training for incumbent employees will be a difficult objective to accomplish because, perhaps surprisingly, expanded general training goes against the grain of many firms' personnel practices. We already have noted one reason why this is true: firms fear that any investments they make in general training are insecure since, by definition, worker mobility is enhanced. This difficulty is compounded because the rigid wage-structure which characterizes many internal labor markets makes it hard for firms to be *paid* for any general training via lower wages for workers who are receiving it.[32] There are additional reasons why such training has historically been underprovided. Training for jobs which do not yet exist implies sharing information with the labor force on future plans for technological innovations. Reluctance to share has been a major obstacle for some joint union-management training programs. It extends into non-union settings as well. In addition, line managers--who typically have to approve released-time and sometimes budgets--fail to see the payoff for themselves since they lose staff and budget from production and do not gain any immediate output increases. Finally, the experiences of several training projects suggest that employees often fear and are reluctant to step into unknown occupational areas.[33]

One promising strategy is to support, whenever possible, the initiation and expansion of joint union-management training programs. There are a number of notable examples of such agreements--particularly the ones between the Communications Workers of America and both AT&T and the regional phone companies, and the agreements between the United Auto Workers and Ford and GM.[34] These programs can take a variety of forms but typically involve some source of joint funding and joint administration. However, in some cases the union manages training on its own. The orientation and content of the programs also can vary. There are examples of very general training in which workers receive support for taking courses in local community colleges on topics related to their work but not tied to any specific occupational goal. More specific training occurs

when employees are trained in emerging fields which are highly likely to be relevant to foreseeable job openings. Finally, other efforts are organized in the context of employment reductions and are aimed at finding new jobs for workers suddenly in distress.

There are a number of ways in which public assistance can help expand the scope of these efforts. Increasingly, for example, Title III dislocated worker funds from JTPA are used partially to underwrite efforts, but other possibilities for fund usage include technical assistance, funds for pilot efforts, tuition remission at community colleges, and moral suasion directed towards reluctant parties. The central objective is to help support existing efforts and diffuse the model into sectors not yet active.

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Promising as these programs are, they are clearly only a relatively small part of the story since only about 15 percent of the private labor force is unionized. It is more difficult to devise promising models for expanding general training in non-union settings. It is at this point that a training tax approach becomes relevant.

Such an arrangement would levy a percentage tax upon firms based on the value of their payroll. It would be undesirable to increase the tax burden on labor since that would create a disincentive to expand employment. However such a tax on firms need not have this same effect. Several states already have reduced the unemployment insurance tax by a given amount (in California by a half a percentage point) and replaced it with a training tax. Federal legislation could mandate such a system nationally.

To encourage general training, a fraction of the funds can be returned to firms in return for expanded training and mobility prospects for incumbent workers. The goal here is to encourage firms to provide more general training (as compared to very specific job-related training) and in doing so to make the labor force more mobile both internally and externally. The arrangement proposed here avoids disincentives caused by fear of losing training investments to worker mobility since the firms would pay the tax regardless, and from the firm's perspective there would be no reason not to reclaim a portion of the tax for internal training.

The key difficulty in such an effort, of course, is assuring that the training represents a net addition and not simply substitution for on-the-job training which otherwise would have occurred. Indeed, it would be

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impossible to monitor this directly, short of requiring firms to provide detailed accounting of their past and current training expenditures, which would not only be overly burdensome but ultimately would remain unreliable. Instead the best strategy appears to require some level of match by the firm and then collect data to assure that this sub-set of the training budget (the tax return plus the match) is spent on general training. This could be operationalized as training not required for performance of the individual's current job. The training could occur in the firm, in local community colleges, or in other training institutions. The local labor-market agency described above would be responsible for administering this program and monitoring the training. Clearly this definition is not watertight and there would remain considerable slippage; nonetheless, widespread underprovision of general training suggests that this modest re-directing of the already existing unemployment insurance tax is worth undertaking.

There are additional training issues which are related to firm size. A strong case can be made that it is in small firms that the greatest underprovision of general training occurs. Several studies have shown that training is underprovided in small firms for two reasons.[35] First, these firms are often simply unable to devote management time to human resource issues. They are often early in their product life cycle or operate in more competitive environments and thus have more pressing product-development and product-market concerns. Secondly, small firms lack an extensive internal labor market and will be even more concerned than large firms that any resources devoted to training will be lost as workers leave.

Given these considerations, it makes a great deal of sense for a consortia of small firms along with the public authority jointly to sponsor training at an external institution. The role of the training agency is crucial here as a catalyst to bring the firms together, to develop an accurate assessment of common training needs, and to help finance and organize the program. If most of the relevant firms in the area participate, then it is not unreasonable to expect some financial participation by the firms since they will be protected from *free riders*. A logical extension of such an approach, although one with more radical implications, is to create a common labor pool so that workers who are temporarily redundant in one firm will be lent to another. Arrangements of this kind seem common in Japan and there are even a few examples in the United States.[36] A model of this sort would require a set of firms which share

relatively similar skills but tend to be at different points on the product cycle or the business cycle. It clearly would not work if all firms needed to divest themselves of employees at the same time. However, regardless of whether or not this particular extension is viable, the general model of industry-centered joint training agreements with a strong placement component has considerable promise.

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Turning to other efforts at adult training and placement, in recent years an important thrust has been efforts to assist the victims of plant closings and large scale layoffs. These are the dislocated workers to whom we paid such close attention earlier.

The typical program today centers around a Worker Assistance Center which provides counseling, placement, and training services for laid-off workers who are searching for employment elsewhere. Although these efforts often ameliorate the situation of the displaced, they are reactive. They typically are triggered by a plant closing or large scale layoff. The crisis nature of the intervention, the short time usually available (even if advance warning is practiced), and the institutionally *ad hoc* nature of the response all limit the effectiveness of such efforts. This is not to imply that such efforts are not important; when a layoff or closing occurs, a response is necessary and clearly the training agency should take an active role. However, our point is that the most effective response will have been the prior training and placement efforts described above which will have created a more flexible and mobile labor force, making the last minute responses less desperate.

These points notwithstanding, in addition to the Worker Assistance Center approach there are several other creative policy responses to layoffs which sporadically have been tried and deserve wider distribution. The first two of these seek to reduce (although not avoid) layoffs. Several states have experimented with part-time unemployment insurance through which firms can reduce a full-time employee to part-time. The worker can collect unemployment insurance for the lost hours. This, of course, would reduce the number of workers permanently separated since the firm can attain the appropriate reduction in hours without laying people off. Such a scheme is less attractive in US settings than it is in Europe because more American layoffs end in recalls. Furthermore, the seniority system may create a disincentive for more senior employees to accept reduced hours, given that their full-time jobs are relatively secure and the brunt of adjustment falls upon younger employees.

A worthwhile experiment would be for the training agency...to offer retraining subsidies to firms which are willing to retrain workers due to be laid off for other jobs within the firm.

In many cases the firm's technology may make part-time work cumbersome. Finally, the fixed costs (benefits, for example) associated with each body employed may make two part-time employees more expensive than one full-time worker. Nonetheless, this plan has been intensively used by a number of employers (Motorola is often cited as making the greatest use in Arizona and California) and its slow diffusion may be attributable to the limited number of states (12, as of 1986) which permit it and the fact that most employers even in those states are not fully familiar with the possibilities.[37]

Secondly, it is worth considering the implications of the paradox that firms which are laying-off one category of employee are often at the same time hiring another. For example, a company may be reducing its ranks of middle managers and blue collar production workers but expanding employment of technicians and sales people. There are several reasons for this paradox. First, and most obvious, the firm may believe it impossible, too expensive, or too time-consuming to train a blue collar worker to be, for example, an effective salesmen. Secondly, except at the most senior levels (and senior executives generally are unconcerned with the details of personnel actions) different managers who do not connect with each other are responsible for the two actions.

A worthwhile experiment would be for the training agency described above (which has keeping in touch with the actions of firms in its area as part of its function) to offer retraining subsidies to firms which are willing to retrain workers due to be laid off for other jobs within the firm. Such a subsidy would not be aimed at featherbedding or keeping on unneeded workers. There would need to be oversight which assures that employees actually do change occupations after the new training. Clearly not all laid off employees, or even a majority, can be saved in this way since the hiring may not be sufficiently extensive and since in many cases the retraining indeed will be impractical (it would be less impractical were our earlier recommendations for more extensive general training for incumbent employees taken up). However, firms frequently underestimate the recruitment, training, and socialization costs of new employees and a training subsidy tied to layoff prevention would tip the balance in favor of maintaining employment levels with current employees.

Conclusions

This paper contains a variety of specific recommendations for a revived employment and training system. The most important of these include expanding the eligibility for the programs, unifying programs under a broadly representative local labor market agency, rethinking the entry process for young people, and a variety of suggestions for expanding the general training made available to employed adults.

The central message of the paper, however, is broader than specific programs or initiatives. As currently constituted, the employment and training system is isolated from the main events in the labor market, either in the external labor market or within firms. Put bluntly, the remedial programs (for example, Title II of JTPA and the various work/welfare efforts) are seen as extensions of the welfare system or as attempts to work with groups whose very participation in the programs raises significant doubts about their ultimate employability. Efforts aimed at dislocated workers do not have this effect but they are also isolated, after-the-fact interventions with modest prospects for success.

Currently...the employment and training system is isolated from the main events in the labor market, either in the external labor market or within firms. Put bluntly, the remedial programs...are seen as extensions of the welfare system.

There are several negative consequences of the system as currently structured. The programs for poor people isolate and stigmatize their clients. Programs for dislocated workers must respond to emergencies in an inevitably limited way, rather than increase the ongoing training of the employed labor force so that workers are more adaptable. Firms do not turn to the system to help them with the many human resource problems they face. Finally, the political support for the system is limited because it is seen as catering to particular interest groups rather than addressing broad national issues.

We have argued that the system does, in fact, have the potential to speak to these broad issues and, by doing so, better serve its specific client groups. These issues include reducing tension over trade by easing the difficulty of shifting jobs, assisting firms to retrain their labor force to respond to new technologies, and working with an increasingly ill-equipped entry cohort in an era of labor shortage. There are many other opportunities for a strong, broad system. However, in order to achieve this we need to change the way we think about the position of the employment and training system in the economy. We must understand that the friends of the system, not simply its enemies, have assigned it the narrowly circumscribed role it currently fills.

By becoming a genuine system which can offer a wide range of services to a wide variety of clients, which can work with firms and unions and become a true player in local labor markets, the employment and training system will better serve its traditional constituencies.

There are a great many innovative training efforts in the *mainstream* of the labor market, ranging from union-management programs embodied in collective bargaining agreements to community college programs to attempts by firms or groups of firms to expand their internal training system. The challenge facing the public employment and training system is to broaden its focus and to become part of the larger picture. By becoming a genuine system which can offer a wide range of services to a wide variety of clients, which can work with firms and unions and become a true player in local labor markets, the employment and training system will better serve its traditional constituencies when they need help and also help prevent problems by widening the general skill base of the workforce.

Remarks: Peter Carlson
National Alliance of Business

(From EPI Seminar on Labor Market Policy, April 29, 1988)

I congratulate the folks at the Economic Policy Institute for their good timing in holding this meeting. As the dust begins to clear from the recent battles over dislocated worker legislation, now is a good time to step back and calmly consider some of the broader employment policy issues that were never addressed directly during the debate.

Also, with the upcoming election, a new Congress, and a new administration, now is a good time to ask where are we headed in employment and training policy and how do we get there from here?

Paul Osterman's paper is a good starting point for this discussion.

For the most part, we share a very similar vision of where employment and training policy is headed, at least in terms of the principles that should guide policy in this area. We agree that the nation needs a broad, generalized employment and training service delivery system, rather than the patchwork collection of programs that currently exists. The administration of various related programs should be coordinated to prevent duplication of effort, to identify service gaps, and to provide a continuum of services to participants, who should emerge from the system with sound employment credentials, rather than a social stigma.

We agree that the nation needs a broad, generalized employment and training service delivery system, rather than the patchwork collection of programs that currently exists.

We share a common view that the system should be locally based, with sufficient flexibility to tailor programs to local labor market needs.

Finally, we agree that public employment and training programs should operate in a stable political and fiscal environment, allowing time for new institutions to take root and for experimental approaches to prove their worth.

These principles have guided employment and training policy since the early 1970s. Of course, public policies have not always adhered to these principles.

mainly due to the political appeal of tinkering with employment and training programs at the federal level.

The emphasis in public employment and training efforts should be on private sector job placements, rather than on public sector job creation or income transfers.

To complete the picture of where employment and training policies are currently headed, we need to add several more principles that have been adopted by the Congress since the late 1970s.

1) The emphasis in public employment and training efforts should be on private sector job placements, rather than on public sector job creation or income transfers. This is the basis for involving the private sector in program planning and oversight.

2) The states should play the lead role in administering the employment and training system, since their political boundaries most closely approximate labor market boundaries and since most of the existing pieces of the employment and training system are administered by state agencies.

3) Public employment and training should emphasize preventative and interventionist approaches, rather than curative and passive approaches.

4) And program performance should be judged on the basis of outcomes, rather than process.

These principles remain more controversial, partly because they are newer and partly because the Reagan Administration has tried to take credit for them. However, it's important to make a distinction between the rhetoric of the Reagan Revolution and the sound policy principles that are the product of employment and training evolution. Most of the shifts in employment and training policy that are reflected in the Job Training Partnership Act were a continuation of Carter Administration initiatives in this area. It is also important to note that the two employment and training initiatives currently before the Congress--focusing on dislocated workers and welfare recipients--build on these principles and have broad bipartisan support.

Ironically, discussion of these more controversial principles is missing from the paper, despite their profound influence on the shape of current federal programs.

Having dwelt for a minute or two on where we are, let's turn for a minute to where we are headed.

The central thesis of the paper is that by broadening the scope of employment and training programs, political support can be broadened, traditional client groups can be better served, and employment security can be enhanced generally.

I would argue that the scope of employment and training programs is already very broad, and getting broader every day. Growing concern about the nation's ability to compete is spawning all kinds of new employment and training initiatives. The state of New Jersey recently identified 65 different employment and training programs operating within six different state departments. And these numbers don't even include the many local and private sector initiatives in this and every other state. The problem is not the narrow scope of employment and training programs, but the fact that these programs do not operate as an integrated, coherent service delivery system.

Reforming existing institutions to construct a coherent system is a major challenge. The resistance of entrenched institutions to any change whatsoever is always considerable.

How do we overcome this problem?

Osterman argues that the best place to tie together the pieces of the employment and training system is at the local level. I would wholeheartedly agree. The paper suggests that bringing the many existing employment and training programs under one administrative authority--a local labor market board--is the way to go. I would also agree. In fact, so would many others since this is exactly what current federal policy attempts to do.

It is interesting, then, that the prototype for Osterman's labor market board, the Private Industry Council, gets only a lukewarm endorsement from the paper. It is true that the PICs, which have been struggling for the past five years to gain experience and get established within the community, are far from perfect. But, if we all can agree that this concept is a good one, let's stop complaining about the PICs shortcomings and let's figure out what needs to be done to improve and strengthen them in the coming years.

Unfortunately, any labor market board doesn't have the luxury of starting from scratch to construct a rational service delivery system. It has to fashion a system out of the fragments that currently exist, then fill in any remaining gaps.

Reforming existing institutions to construct a coherent system is a major challenge. The resistance of entrenched institutions to any change whatsoever is always considerable, but when the staff of public agencies

perceive that their jobs are being threatened you can expect nothing less than full scale war.

A more productive approach would be to assess the adequacy and effectiveness of current employment and training policies and structures, then make suggestions for improvements.

For this reason, federal policy has not confronted this problem head on, but has opted to take a more voluntary approach. The joint planning requirements that are becoming a part of practically every public employment and training program are one experimental attempt to open the lines of communication and establish the mutual trust necessary for gradual program integration. But, it is still an open question whether joint planning requirements by themselves are a strong enough incentive to promote program integration. Public policy has experimented with many different mechanisms over the years dating back to the CAMPS effort. None have produced satisfactory results. It may be time to try something new--such as the paper's suggestion that the PIC be given authority over the Employment Service.

Fortunately, current federal policy doesn't rely only on the PIC and joint planning to rationalize existing delivery systems. JPTA introduced a unique partnership arrangement between the PIC and the chief local elected official so that the expertise, resources, and authority of both could be combined to confront this challenge. Moreover, since most of the fragments of the employment and training system don't fall under the authority of local elected officials, JPTA created a counterpart to the PIC at the state level to advise governors on how they can use their administrative authority to force state agencies to work together in a more coordinated manner to pave the way for local program integration.

However, there is no discussion of these critical elements of the current employment and training system in Osterman's paper.

That leads me to a general observation. Although I agree with much of what is in Osterman's paper, it has an air of unreality to it. When reading the paper, I get a feeling of *deja vu*. Many of the issues addressed by the paper, particularly those that relate to the structure of the employment and training system, were debated and resolved with the passage of JPTA. Yet, the paper approaches them as if they were newly discovered. Correspondingly, many of the solutions proposed have already been in place for a number of years. It seems that a more productive approach would be to assess the adequacy and effectiveness of current employment and training policies and structures, then make suggestions for improvements, rather than taking such a zero-based

approach that ignores the progress that has already been made.

Along the same line, the paper seems to assume a world without political budgetary constraints. Yet, these factors have had a profound influence on employment and training policy for the last decade, and will continue to for some time to come, even in a Democratic administration. Congress will continue to take categorical approaches to committees as long as interest groups pursue their own separate agendas. Federal budgets will continue to be tight, forcing difficult choices in setting federal priorities and frustrating efforts to expand federal efforts, regardless of public needs or private desires.

Congress will continue to take categorical approaches to committees as long as interest groups pursue their own separate agendas.

While Osterman's paper suggests a vision for a *brave new world* of employment and training--one that is very similar to my own--such a vision can only be implemented a step at a time. The nation has already taken some important steps down this road, and I feel the direction is sound. It is up to the new Congress and administration to speed up the pace.

I thank you for the opportunity to share my views with you this morning, and I look forward to a productive discussion of the paper before us.

An integrated training system would set the stage for a public training policy which penetrates much more deeply into the economy with respect to skills, work organization within firms, economic development and the like. Distinct programs, each operating in a small niche, do not add up to such a whole.

Response: Paul Osterman

Peter Carlson's comments are thoughtful and suggest a number of useful additional points concerning a revived employment policy. I do, however, want to correct a misleading impression he seems to have gained from my paper.

Carlson argues that employment policy is already broad and that a wide range of activities are currently underway. He cites studies in New Jersey and Michigan which identify over sixty training programs in each state. Carlson uses this to undermine my argument that employment policy should be broadened. My point, however, is different and based on two arguments.

First, what might be termed the remedial training system--JPTA, training for welfare recipients, etc.--is isolated from most other efforts and this isolation has very negative consequences for the success of the remedial efforts. This is not a matter of coordination and joint planning, which is how Carlson chooses to interpret my argument, but rather it argues for creating a coherent system which is no longer income targeted and which is a serious player in labor markets. This would eliminate stigmatization, a problem which I argue goes a long way toward explaining the weak record of remedial efforts.

Second, and equally important, an integrated training system would set the stage for a public training policy which penetrates much more deeply into the economy with respect to skills, work organization within firms, economic development and the like. Distinct programs, each operating in a small niche, do not add up to such a whole. A broad effective system would therefore be perceived as more useful to a range of labor market actors and thence gain broader support than past scattered efforts.

Because I am talking about a fundamentally different and more inclusive system than any which currently exists, Carlson's claim that these issues have already been considered and resolved with the passage of JPTA misses the point.

Endnotes

1. The source of these data is the Panel Survey on Income Dynamics. The fraction of women who fall below the cutoff are based on the female median earnings for full-time women and only labor force participants during the relevant year are included in the calculations. For complete details on the calculations see Paul Osterman, *Employment Futures; Reorganization, Dislocation, and Public Policy*, Oxford University Press, 1988.

2. The data are for 1983 and are found in Sheldon Danziger, Robert Haveman, and Robert Plotnick, "Anti-Poverty Policy, Effects on the Poor and the Non-Poor," in Sheldon Danziger and Daniel Weinberg, eds., *Fighting Poverty*, Harvard University Press, 1986.

3. Osterman, *Employment Futures*, (see above), Chapter 3.

4. In fact, people who had lost work due to other reasons--seasonal jobs ending, failure of a self-operated business, and "other" were also asked the questions--however I have excluded these people from the sample since their situation is different in important respects from the others.

5. Paul Osterman, *Employment Futures*, (see above). See also Larry Mishel, "Dislocation: Who, What, Where, and When," for regional data and for additional evidence from the 1986 survey which is consistent with the findings for 1984. Paper presented at the Eastern Economics Association meetings in Washington, DC, March 1987.

6. We have not addressed the question of why the labor market does poorly in this regard. To do so would take us too far afield, but the basic answer goes to the hiring practices of firms and the structure of promotion ladders which place a premium on hiring inexperienced workers at the bottom rather than experienced employees into the middle. This policy worked well in an era in which there were growing supplies of new youth and adult women labor force participants. However, it makes it very hard for dislocated workers to find suitable new employment. Osterman, *Employment Futures*, (see above), Chapter 3.

7. Osterman, *Employment Futures*, (see above), p. 53.

8. Bureau of National Affairs, *Personnel Policies Forum*, No. 140, 1985, p. 37.

9. Jeffrey Sonnenfeld, "Demystifying the Magic of Training," in Richard Walton and Paul Lawrence, eds., *HRM Trends and Practices*, Harvard University Press, 1985, p. 302.

10. Harou Shimada and John-Paul McDuffie, "Industrial Relations and Humanware," Working Paper 1855-87, M.I.T. Sloan School of Management, December, 1986, pp. 57-60.

11. There are numerous reviews of the evaluation literature. See for example Charles Betsey, et.al., *Youth Employment and Training Programs, The YEDPA Years*, National Research Council, 1985; Burt Barnow, "The Impact of CETA Programs on Earnings: A Review of the Literature," *Journal of Human Resources*, Vol. 22, No. 2, Spring, 1987, pp. 157-193; Howard Bloom, "Estimating the Effect of Job Training Programs Using Logitudinal Data: Ashenfelter's Findings Reconsidered," *Journal of Human Resources*, 1984, pp. 545-555; and Laurie Bassi and Orly Ashenfelter, "The Effect of Direct Job Creation and Training Progams on Low-Skilled Workers," in Sheldon Danziger and Daniel Weinberg, eds., *Fighting Poverty*, Harvard University Press, 1986, pp. 133-151. Virtually all of the studies reviewed in the material cited above estimated the impact of employment programs on earnings as the dependent variable and found results in the range cited in the text. A recent study of CETA by David Card and Daniel Sullivan instead examined the impact of the program on the probability of employment. They found that participation in CETA training programs raised the probability of employment by between 3 and 5 percentage points (e.g., prior to participation a trainee had about a .85 chance of having a job, after participation the probability was between .88 and .90). Given that the typical job held by a trainee (after participation) paid $5,800, this translates into an earnings gain from participation of $100-$300 per year on average. See "Measuring the Effect of Subsidized Training Programs on Movements In and Out of Employment," Working Paper No. 2173, National Bureau of Economic Research, February, 1987.

12. The largest of these programs is the Targeted Jobs Tax Credit (passed in 1978). This program does not seem to have penetrated very deeply into the labor market in that employer surveys report that only 2.8% of firms (accounting for 15 percent of employment) report that they make any effort to hire TJTC eligible applicants. These data and the following information on TJTC are taken from John Bishop and Kevin Hollenbeck, *The Effects of TJTC on Employers*, National Center for Research for Vocational Education, 1985. Despite this, however, a substantial number of individuals are touched by the program, with 563 thousand people having received certificates in fiscal year 1984. Although the program was not intended as a youth effort, two-thirds of the certifications are youth with the next most significant group, welfare recipients, accounting for 12 percent. What this suggests is that the program is mainly subsidizing employment of youth in low skill positions, not moving adults into "good" jobs. Evaluations of employer behavior suggests that between seventy-five and ninety percent of jobs filled by TJTC subsidized workers would have been filled anyway either by TJTC eligibles or by other workers. See Bishop and Hallenbeck, p.70. Put differently, only between a quarter and ten percent of TJTC jobs are "new" in the sense that the program created them. Finally, there appears to be no impact of TJTC in reducing quits or layoffs or on increasing the promotion rate of eligible employees compared to comparable workers not eligible for TJTC. See Bishop and Hallenbeck, p. 48.

13. There are, of course, individual success stories or even programs as a whole which are more successful than average. But, the point raised earlier about key importance for public policy of expected average effects must be kept in mind.

14. Thomas Bailey, "An Assessment of the Employment and Training System in New York City," in Charles Brecher and Raymond Horton, eds., *Setting Municipal Priorities, 1988*, New York University Press, 1987.

15. Charles Mallar, Stuart Kerachsky, and Craig Thornton, *Evaluation of the Economic Impact of the Job Corps Program*, Third Follow-up, Mathematica Policy Research, 1982.

16. Manpower Development Research Corporation, *Summary and Findings of the National Supported Work Demonstration*, Ballinger, 1980.

17. According to the General Accounting Office, among Title III participants in 1985, 88 percent were 22-54, 78 percent had a high school degree or more, 60 percent were male, and 69 percent were white. The comparable figures for Title II--the main training program for the disadvantaged--were 57 percent, 61 percent, 48 percent, and 54 percent. See General Accounting Office, *Dislocated Workers: Local Programs and Outcomes Under the Job Training Partnership Act*, March, 1987, p. 39.

18. A good recent review is provided in the *Task Force Report to the Secretary of Labor on Plant Closings* (also known as The Lovell Report), Government Printing Office, 1987. For a good description of a program see Gary Hansen, "Ford and the UAW Have A Better Idea: Joint Labor Management Approaches to Plant Closings and Worker Retraining," *Annals of the American Academy of Political and Social Science*, Vol. 475, September, 1984, pp. 118-174.

19. Mathematica Policy Research, Inc. *An Impact Evaluation of the Buffalo Dislocated Worker Demonstration Program*, Princeton, N.J., March, 1985, p. vi.

20. See Terry Johnson, Katherine P. Dickinson, and Richard West, "An Evaluation of the Impact of ES Referrals on Applicant Earnings," *Journal of Human Resources*, Vol. XX, No. 1, Winter, 1985, pp. 117-138.

21. For a good review of the changing role of the Employment Service and some of the issues this raises, see Stanley Ruttenberg and Jocelyn Gutchess, *The Federal--State Employment Service: A Critique*, Johns Hopkins Press, 1970.

22. Richard Lester, after arguing that the Employment Service should be at the center of an employment and training system, went on to note that (in the early 1960s) only 30% of all placements made by the Service were non-farm jobs of over three days duration. Richard Lester, *Manpower Planning In A Free Society*, Princeton University Press, 1966, p. 71.

23. Gary Burtless, "Are Targeted Wage Subsidies Harmful? Evidence From A Voucher Experiment," *Industrial and Labor Relations Review*, Vol. 39, No. 1 October, 1985, pp. 105-114.

24. Quoted in Charles Meyers, "Critical Issues in National Manpower Policy," in Stanley M. Jacks, ed., *Issues in Labor Policy*, MIT Press, 1971, p.14.

25. I am grateful to Norton Grubb and Jerry Karabel for sharing with me drafts of their very insightful work in this area. My analysis has been influenced by their views.

26. Fred L. Pincus, "Customized Contract Training in Community Colleges: Who Really Benefits," paper presented to the American Sociological Association, Washington, D.C., 1985, p. 2.

27. Fred L. Pincus, (see above).

28. Some estimates for the CETA period are that turnover rates of professional staff were between 25% and 50% per year! See Jim Darr and Erik Butler, "Reexamining the Federal Experience With Youth Employment; What Are the Managerial Lessons?" paper prepared for the National Research Council, December, 1984, pp. 49-50. In this paper, the low estimate is derived from the *Employment and Training Reporter*, Bureau of National Affairs, the high estimate from a poll of members of the National Youth Practioners Network.

29. The three tracks are Hauptschule, Realschule, and Gymnasium. The first two typically conclude with an apprenticeship while the latter is the path to university. Germany has experienced an educational inflation similar to ours and thus on the one hand the Hauptschule is increasingly seen as a dead-end and, on the other hand, a growing number of Gymnasium graduates, faced with a decline in public sector employment, are returning for an apprenticeship.

30. A skilled blue collar worker is called a *Facharbeiter* and a skilled white collar worker *Angestellte*.

31. Although the situation is perhaps better than in 1964 when 85% of students in vocational education courses studied agriculture or home economics (see Stanley Ruttenberg assisted by Jocelyn Gutchess, *Manpower Challenge of the 1970s: Institutions and Social Changes*, Johns Hopkins University Press, p.17), recent evaluations leave little room for optimism. The most recent summary of this literature is provided by the National Research Council, *High Schools and the Changing Workplace*, National Research Council, 1984. See also John Grasso and John Shea, *Vocational Education and Training: Impact on Youth*, Carnegie Foundation for the Advancement of Teaching, 1979. The clear message from this literature is that youth who attend vocational programs earn no more--after controlling for differences between these students and others--than those who do not and, even more surprising, there is no relationship between the occupations students prepare for and what they eventually do. That is, a student who studies machining does not have a higher probability of working as a machinist after graduation than does another student in a general education track in the same high school.

32. This point is made in Paul Ryan, "Job Training, Employment Practices, and the Large Enterprise: The Case of Costly Transferable Skills," in Paul Osterman, ed., *Internal Labor Markets*, MIT Press, 1984, pp. 191-230.

33. In the case study of the high technology firm referred to earlier, the company had difficulty recruiting sufficient employees willing to undergo retraining, despite very high job security assurances.

34. Useful discussion of these and other agreements is provided by Ernest J. Savoie, "Current Developments and Future Agenda in Union-Management Cooperation in Training and Retraining Workers," *Labor Law Journal*, August, 1985, pp. 535-547; and Ronnie J. Straw and Margaret L. Hilton, "Training for Employment Security and Personal Growth: The CWA Approach," paper presented to the Twentieth Atlantic Economic Conference, Washington, DC, August 31, 1985.

35. These studies are reviewed in Patricia Flynn Pannell, "Employer Response to Skill Shortages: Implications for Small Business," *Proceedings of the Small Business Research Conference*, Vol II, Bentley College, 1981.

36. See John Gennard, "Job Security: Redundancy Arrangements and Practices in Selected OECD Countries," mimeo, Directorate for Social Affairs, Manpower, and Education, Organization for Economic Cooperation and Development, September, 1985.

37. Charles Maller, Stuart Kerachsky, and Craig Thornton, *Evalution of the Economic Impact of the Job Corps Program*, (see above).

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